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No. . . .

IN THE

Supreme Court of the United States

October Term 1981

HOLLESS W. ALLEN and ALLEN ARCHERY, INC.,
Defendants, Petitioners,

vs.

PRECISION SHOOTING EQUIPMENT COMPANY and PAUL E. SHEPLEY, JR.,
Plaintiffs,

and

BEAR ARCHERY COMPANY, Division of VICTOR UNITED, INC.,
Intervening Plaintiff, Respondents.

PETITION FOR CERTIORARI INJUNCTION PENDENTE LITE.

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Questions Presented for Review*.

1. Is the jurisdictional requirement for an actual controversy satisfied where a patent licensee seeks a declaratory judgment of invalidity of the licensed patent, while retaining his license?

2. Should this Court's decision in *Lear, Inc. v. Adkins* influence the judicial determination as to existence of an actual controversy for jurisdictional purposes?

3. If jurisdictional requirements are met, does the rationale of *Lear, Inc. v. Adkins* call for economic strangulation of a licensor facing a licensee's validity challenge, by escrowing all royalties *pendente lite?*

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*Note: In addition to the parties named in the caption, an additional intervenor, Ben Pearson Archery, Inc., was and remains a party to proceeding in the District Court. Another applicant for intervention, Brunswick Corporation, withdrew its motion for leave to intervene in the action in the District Court as the result of a settlement.

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PRECISION SHOOTING EQUIPMENT COMPANY and PAUL E. SHEPLEY, JR.,
Plaintiffs,

and

BEAR ARCHERY COMPANY, Division of VICTOR UNITED, INC.,
Intervening Plaintiff, Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit Injunction Pendente Lite.

The Petitioners, Holless W. Allen and Allen Archery, Inc., respectfully pray that a writ of certiorari issue to review the decision of the United States Court of Appeals for the Seventh Circuit, Case No. 78-2357.

Opinions Below.

The opinion of the Court of Appeals for the Seventh Circuit (App. A, *infra*, pp. A-2 to A-19) is expected to be reported in .... F. 2d ...., ... USPQ ....

An opinion of the district court rendered October 3, 1977 (App. B, *infra*, pp. B-20 to B-24) is reported in 196 USPQ

502. An opinion of the district court rendered September 6, 1978 (App. C, *infra*, pp. C-25 to C-30) is reported in 199 USPQ 459. An Order of the Court of Appeals for the Seventh Circuit, entered December 22, 1978 (App. D, *infra*, pp. D-31 and D-32) is unreported. A Decision and Order of the district court rendered April 2, 1979 (App. E, *infra*, pp. E-33 to E-36) is unreported. An Order of the Court of Appeals for the Seventh Circuit entered June 1, 1979 (App. F, *infra*, pp. F-37 and F-38) is unreported. An opinion of the district court rendered August 1, 1979 (App. G, *infra*, pp. G-39 to G-41) is reported in 205 USPQ 149.

The opinion of the district court rendered February 8, 1980 (App. H, *infra*, pp. H-42 to H-67) from which appeal to the Court of Appeals for the Seventh Circuit was taken is reported in 492 F. Supp. 79, 205 USPQ 1142.

Jurisdiction.

The opinion of the Court of Appeals for the Seventh Circuit was entered on April 7, 1981. The jurisdiction of this Court is invoked under the United States Code, Title 28, Section 1254(1).

Constitutional Provision and Statutes Involved.

"The judicial Power shall extend to all Cases, in Law and Equity, arising under * * * the Laws of the United States * * *; to Controversies between * * * Citizens of different States * * *."

[U.S. Constitution, Article III, Section 2, Clause 1.]

"In a case of actual controversy within its jurisdiction * * * any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the

force and effect of a final judgment or decree and shall be reviewable as such."

[United States Code, Title 28, Section 2201.]

"(a) The courts of appeals shall have jurisdiction of appeals from:

"(1) Interlocutory orders of the district courts of the United States, * * * or of the judges thereof, granting, continuing, modifying, refusing or dissolving injunctions, or refusing to dissolve or modify injunctions, except where a direct review may be had in the Supreme Court;"

* * * * *

[United States Code, Title 28, Section 1292.]

"Cases in the courts of appeals may be reviewed by the Supreme Court by the following methods:

"(1) By writ of certiorari granted upon the petition of any party to any civil or criminal case, before or after rendition of judgment or decree;"

* * * * *

[United States Code, Title 28, Section 1254.]

Statement of the Case.

Background.

The decision review of which is sought was rendered on motions for injunctive relief, *pendente lite*, brought by an intervenor in a pending action for a declaratory judgment. The original action was commenced by Precision Shooting Equipment Company and Paul E. Shepley (Precision) against Holless W. Allen and Allen Archery, Inc. (Allen) seeking to invalidate Allen patent No. 3,486,495. Precision claimed that a license to it under the patent was then in force, but Allen disputed this. Under the circumstances, District Judge Morgan ordered royalties tendered by Precision paid into court to abide the court's decision [see 196 USPQ 502]. No appeal was taken from that decision.

Bear Archery Company, Division of Victor United Inc. (Bear), a licensee under the Allen patent, moved to intervene on May 2, 1978, joining motions for (1) an order for payment of royalties into court and (2) a preliminary injunction against termination of Bear's license *pendente lite* so long as royalties were so paid. On September 6, 1978 District Judge Morgan granted all of Bear's motions [see 199 USPQ 459]. Allen appealed from this judgment.

Subsequently, in a hearing on similar motions by another licensee seeking to intervene, Judge Morgan conceded error in granting Bear's motions, and as a result, the Court of Appeals, on December 22, 1978, entered an Order remanding jurisdiction of the Allen appeal of the Bear order, for the purpose of affording Judge Morgan the opportunity to modify or amend his order of September 6, 1978.

Following that Order, Judge Morgan, on April 2, 1979, entered a Decision and Order modifying his Order of September 6, 1978 to permit withdrawal of escrowed royalties. Bear then obtained from the Court of Appeals a further Order, entered June 1, 1979, noting that the matter had been reassigned to a new district court judge* wherefore remand was permitted "for additional consideration".

Following this further Order, District Judge Baker entered an Order on August 1, 1979 vacating those portions of Judge Morgan's Decision and Order of April 2, 1979 permitting the withdrawal of escrowed royalties. [See 205 USPQ 149.] After a further hearing, Judge Baker entered a modifying order on February 8, 1980 modifying and superseding all inconsistent provisions of previous orders. This order directed payment out of escrow to Allen of all royalties accrued but unpaid prior to Bear's motion to intervene, but

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*The State of Illinois had been redistricted.

directed all royalties thereafter accrued to be escrowed [see 492 F. Supp. 79, 205 USPQ 1142].

On appeal, the jurisdictional issue as to the intervenor, Bear, was raised by Allen for the first time, presenting the first and second questions before this Court. The propriety of the escrow order presents the third question.

Reasons for Allowance of the Writ.

The Court of Appeals for the Seventh Circuit has, in this case, rendered a decision which it acknowledges in its opinion is in conflict with decision of the Courts of Appeal for the Third and Tenth Circuits. It is on important questions of federal law involving interpretation of a prior decision of this Court characterized by an academic commentator as bringing chaos in its wake, which questions have not been, but should be, settled by this Court. The result reached is so manifestly unjust as to call for the exercise of this Court's power of supervision.

ARGUMENT.

By its decision in *Lear, Inc. v. Adkins*, 395 U. S. 653, 23 L. Ed. 2d 610, 89 S. Ct. 1902 (1969) this Court overruled *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*, 339 U. S. 827, 94 L. Ed. 1312, 70 S. Ct. 894 (1950), by holding that a licensee is not estopped to interpose the invalidity of the patent as a defense to an action by the licensor to enforce the license agreement.

In the context in which *Lear* was decided, the validity challenge was a shield; not a sword. Lear had renounced its license before suit was brought by Adkins, and this Court said, at U. S. page 662:

> ". . . the only issue open to us is raised by the court's reliance upon the doctrine of estoppel to bar Lear from proving that Adkins' ideas were dedicated to the common welfare by federal law."

The Diversity Among the Circuits.

In the present case, the Court of Appeals, in its opinion explicitly states that the Third and the Tenth Circuits have taken positions contrary to its own, saying:

> "The Third, as we have seen in Thiokol [*Thiokol Chemical Corp. v. Burlington Industries, Inc.*, 448 F. 2d 1328, 171 USPQ 193 (CA 3, 1971), cert. den., 404 U. S. 1019, 30 L. Ed. 2d 668, 92 S. Ct. 684], and the Tenth Circuits, appear to have taken the position in some circumstances that so long as there is a valid license the federal court has no jurisdiction to determine a patent validity charge [sic.] [challenge?]. *Product Engineering & Mfg., Inc. v. Barnes*, 424 F. 2d 42 (10th Cir. 1970)." [App. A, p. A-9.]

It also aknowledges that a district court decision in the First Circuit is contra, saying:

> "*Components, Inc. v. Western Electric Co.*, 318 F. Supp. 959 (D. Me. 1970), adopted a similar approach." [App. A, p. A-9.]

The Seventh Circuit itself has been considered as in the same category until now, by reason of its decision in *Milprint, Inc. v. Curwood, Inc.*, 562 F. 2d 418, 196 USPQ 147 (CA 7, 1977), but the court here purports to distinguish it on the ground that invalidity there was being asserted in a state court action for royalties. This was precisely the situation which gave rise to federal jurisdiction in Lear!

Finally, as the Court of Appeals here points out, the Court of Appeals for the District of Columbia and *district courts* in the Eighth and Ninth Circuits have permitted challenges to patent validity during the existence of a license.

Clearly, therefore, the diversity of opinion among the circuits and the weight of authority favoring petitioner's position warrant issuance of the writ in the present case.

Public Importance of Questions Presented.

In support of its conclusion that *Automatic Radio* should be overruled, however, this Court included in its opinion what have been called "broad policy statements" which have been cited, as the Devil cites scripture, to whatever purpose has pleased the lower courts. The situation thus created has been reviewed as of 1977 by Professor McCarthy in " '*Unmuzzling' the Patent Licensee: Chaos in the Wake of Lear v. Adkins*", 45 Geo. Wash. L. Rev. 429, where the following appears at page 431:

> "When the Supreme Court in *Lear* expressed the public policy of encouraging licensees to challenge patents, the lower courts saddled up and went charging off in several different directions. The 'spirit of *Lear*' became the battle cry of all patent licensees every time any rule of law came between a licensee and its desire to chal-

lenge a patent. . . . . Although an academic observer might characterize post-Lear developments as 'evolutionary', the contrary positions taken by various courts is truly 'chaotic' to the practitioner who must draft a patent license, plan litigation strategy or recommend to a licensee whether or not to pay royalties."

In the present case, while conceding that "*Lear* confers no new jurisdiction on federal courts" [App. A, p. A-9], the Court of Appeals nevertheless gives it such effect, saying:

> ". . . the application of the general 'controversy' rule to a particular patent matter is not easy and may involve a determination of whether in a gray area the gray is dark enough." [App. A, pp. A-7.]
>
> * * * * * *
>
> "In determining, however, whether an 'actual controversy' exists in a particular circumstance, a determination which cannot be mechanically arrived at, the *Lear* rationale deserves to have some influence." [App. A, p. A-9.]

Lear has thus been transformed from a shield into a sword for use in aggression against all patent licensors.

Injustice of the Result Achieved.

So long as the present decision of the Court of Appeals for the Seventh Circuit stands as an expression of the law, at least in that Circuit:

1. Jurisdiction will depend on "whether in a gray area the gray is dark enough"; thus making jurisdiction discretionary to the point of depending on mere whim;
2. A licensee may file a declaratory judgment action *the day after his license is granted* and need never incur the greater potential liability of an infringer if he can get a license at any price;

3. The licensee challenging validity may escrow all royalties and recoup them if his challenge is successful; and

4. The licensor depending on royalty income to finance litigation involving the patent will be financially strangled.

In the recent case of *Dawson Chemical Co. v. Rohm & Hass Co.*, ... U. S. ..., 65 L. Ed. 2d 692, 100 S. Ct. ..., 206 USPQ 385 (1980) Justice Blackman, speaking for a majority of this Court, said at L. Ed. 2d, page 728:

> "The policy of free competition runs deep in our law. * * * But the policy of stimulating invention that underlies the entire patent system runs no less deep."

Here, as in *Dawson, supra,* a just decision

> ". . . . can be of crucial importance in ensuring that the endeavors and investments of the inventor do not go unrewarded."

When the public policy evidenced by court decision, such as the present decision, give courts discretionary authority to (1) entertain licensees' attacks on validity; (2) without risking loss of their licenses if their attacks fail; (3) while insuring that they will recoup all royalties paid if their attacks succeed; (4) and while handicapping, if not strangling, the licensor by depriving him of all royalty income, it cannot be said to be a public policy directed toward stimulating invention by ensuring that the endeavors and investments of inventors do not go unrewarded.

The writ of certiorari should issue in this case.

Respectfully submitted,

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E. Decision & Order of District Court, April 2, 1979, numbered E-33 thru E-36.

F. Order of Court of Appeals for the 7th Cir., June 1, 1979, numbered F-37 thru F-38.

G. Opinion of District Court, 205 USPQ 149, numbered G-39 thru G-41.

H. Opinion of District Court, 492 F.Supp. 79, 205 USPQ 1142, numbered H-42 thru H-67.

APPENDIX A.

Opinion of the Court of Appeals for the 7th Circuit.

In the United States Court of Appeals, For the Seventh Circuit.

No. 78-2357, Precision Shooting Equipment Company and Paul E. Shepley, Jr., Plaintiffs-Appellees, and Bear Archery Company, Division of Victor United, Inc., Intervening Plaintiff-Appellee, v. Holless W. Allen and Allen Archery, Inc., Defendants-Appellants.

Appeal from the United States District Court for the Central District of Illinois, Danville Division. No. 77-C-152—Harold Albert Baker, Judge.

Argued September 15, 1980—Decided April 7, 1981.

Before Wood and Cudahy, Circuit Judges, and Campbell, *Senior District Judge.**

Wood, *circuit Judge*. This is an appeal from an interlocutory order and preliminary injunction entered in a dispute between the licensee of a patent challenging the validity of the patentee's patent in a declaratory judgment action.[1] The preliminary injunction provides that the patentee may not terminate the license during the pendency of this litigation so long as the licensee pays into the court's escrow account accruing post-challenge royalties. The licensee has not renounced its license and continues to mark its products

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*The Honorable William J. Campbell, Senior District Judge of the Northern District of Illinois, is sitting by designation.

[1]The underlying dispute concerns United States Letters Patent 3,486,495 entitled "Archery Bow with Draw Force Multiplying Attachments."

with the patentee's patent number as permitted under the terms of the temporary injunction.[2]

This litigation was instituted by Precision Shooting Equipment Company seeking a declaratory judgment as to the validity of the patent, to which it claimed to be a non-exclusive sublicensee, issued to defendant Holless W. Allen and assigned by him to defendant Allen Archery, Inc. (Allen). Various other licensees of Allen, including Bear Archery Company (Bear), intervened, all challenging the validity of the Allen patent. Bear secured the particular order and temporary injunction against Allen on September 6, 1978, which Allen now appeals. Only Allen, patentee, and Bear, licensee, are involved in this appeal. There is no dispute about the facts, only on two issues of law, the first jurisdictional and the second, the propriety of permitting Bear the protection of the patent while at least temporarily withholding the royalties in escrow from Allen.

Jurisdictional Issue[3]

It is Allen's position that a valid license is an absolute defense to a patent infringement action, since Bear, as licensee, can have no reasonable apprehension of liability in an infringement suit. *Arvin Industries, Inc. v. Berns Air King Corp.*, 510 F.2d 1070 (7th Cir. 1975). That proposition is not disputed, but Allen uses that base to argue that there is therefore no "actual controversy," a constitutional re-

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[2]This case has a procedural history which we see no need for our purposes to recount in detail. It spans the creation of a new judicial district and various orders of Chief Judge Morgan, Judge Baker, and this court.

[3]This issue is raised for the first time on appeal, but being jurisdictional is nevertheless considered, contrary to the general rule applicable to other newly raised issues. *Arvin Industries, Inc. v. Berns Air King Corp.*, 510 F.2d 1070, 1072 (7th Cir. 1975); *Lions Mfg. Corp. v. Chicago Flexible Shaft Co.*, 106 F.2d 930, 933 (7th Cir. 1939).

quirement even though diversity may exist as it does in this case.[4] To support its position, Allen relies in part upon joint consideration of *Milprint, Inc. v. Curwood, Inc.*, 562 F.2d 418 (7th Cir. 1977), and *Winsor v. Daumit*, 185 F.2d 41 (7th Cir. 1950). Allen also directs our attention to *Thiokol Chemical Corp. v. Burlington Industries, Inc.*, 313 F. Supp. 253 (D. Del.1970), dismissing an action by a licensee challenging the validity of a patent, and asks that it be compared with *Thiokol Chemical Corp. v. Burlington Industries, Inc.*, 319 F. Supp. 218 (D. Del. 1970), in which the court refused to dismiss a similar suit after termination of the licensee's license. Both decisions were affirmed in *Thiokol Chemical Corp. v. Burlington Industries, Inc.*, 448 F.2d 1328 (3d Cir. 1971), *cert. denied*, 404 U.S. 1019 (1972).

Bear rejects the argument that merely because Bear's license has not been terminated there exists no real controversy between Bear, licensee, and Allen, patentee. In support of its position Bear cites *Warner-Jenkinson Co. v. Allied Chemical Corp.*, 567 F.2d 184 (2d Cir. 1972), *American Sterilizer Co. v. Sybron Corp.*, 526 F.2d 542 (3d Cir. 1975), seeks in part to distinguish *Milprint*, and generally urges acceptance of jurisdiction when diversity exists on the basis of the strong public policy statement in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

The "actual controversy" issue in this context casts some shadows not easily illuminated. Subject matter jurisdiction is alleged to be based upon diversity of citizenship of the parties with an amount in controversy in excess of $10,000.

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[4]The Declaratory Judgment Act, 28 U.S.C. 2201, limits declaratory judgments to actual controversies in conformity with Article III, Section 2 of the Constitution, restricting jurisdiction to "cases" and "controversies." The Declaratory Judgment Act provides a procedural remedy but confers no new jurisdiction. *Skelly Oil Co. v. Phillips Co.*, 339 U.S. 667, 671-72 (1950).

28 U.S.C. § 1332. That is not disputed, but Bear also argues that diversity requires acceptance of "actual controversy" jurisdiction in light of *Lear, Inc. v. Adkins,* since Bear claims to be faced with a reasonable apprehension of an infringement action once it terminates royalty payments. Bear also cites *Milprint,* 562 F.2d at 422 n.5, in which we commented that apparent diversity jurisdiction, not mentioned in the prior opinions of this court in two other declaratory actions by licensees,[5] "explains this court's unquestioning acceptance of jurisdiction." In *Milprint* we were faced with a different aspect of patent litigation. Milprint, the licensee, had ceased making royalty payments to Curwood under its license. Curwood filed suit for royalties in the state court followed by Milprint's action in the district court seeking a declaration that the patent was invalid, that no further royalties were due, and further seeking recoupment of previously paid royalties. We affirmed the district court's dismissal of the action on the basis that Milprint in essence sought in federal court only to assert a defense to a pending state action. It is, we held, the character of the pending state court action, a contract suit for royalties, and not the alleged invalidity defense which determines whether there is federal question jurisdiction. We therefore declined to determine patent validity which was intended to constitute a defense in a contract suit in state court. 562 F.2d at 422. No issue of "actual controversy" was raised in that case. Because it is distinguishable, our view of the present case is not controlled by *Milprint.*

Allen, as we have mentioned, argues that our decision in *Winsor v. Daumit, supra,* must be read with *Milprint* to

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[5] *USM Corp. v. Standard Pressed Steel Co.,* 524 F.2d 1097 (7th Cir. 1975); and *Beckman Instruments, Inc. v. Technical Development Corp.,* 433 F.2d 55 (7th Cir. 1970), *cert. denied,* 401 U.S. 976, 91 S.Ct. 1199, 28 L.Ed.2d 326 (1971).

determine if diversity alone is enough to confer jurisdiction. We will therefore examine *Winsor*, a diversity case. The plaintiff, Kathleen Winsor, author of Forever Amber, entered into a contract permitting Daumit to adopt the words "Forever Amber" as a trademark for his cosmetic products and agreed that the mark would be Daumit's sole property. She further agreed to help promote the sale of the products for a percentage of the gross sales. She sued for that unpaid percentage. Daumit counterclaimed seeking a declaratory judgment that Winsor's copyright of her book title gave her no right to use the title as a trademark for cosmetics and that the mark belonged to Daumit. We affirmed the dismissal of the counterclaim upon the basis that there was no "actual controversy" between the parties other than the plaintiff's charge of breach of contract. Winsor did not deny that Daumit had the right to use "Forever Amber." Her suit was for the contractual compensation due her for cooperation in promoting the cosmetic sales. The original contract had provided that "Forver Amber" as a mark applied to cosmetics was the sole property of Daumit. It is obvious that *Winsor* is easily distinguishable from the present case, but it does stand for the proposition that there must be an "actual controversy," and that diversity alone does not satisfy all jurisdictional requirements. Neither *Milprint* nor *Winsor*, considered separately or together, dictate any particular result in the present case.

Diversity between the parties is not an ingredient of "actual controversy." It must be remembered that the issue to be determined in the present case is whether an "actual controversy" exists while the license is still in use, diversity or no diversity. In general a "controversy" is more than just a disagreement. It must be justiciable. A court will not render advisory opinions or expound on academic or moot questions merely to satisfy the curiosity of the parties. "The

controversy must be definite and concrete, touching the legal relations of parties having adverse legal interests" susceptible to specific relief. *Aetna Life Insurance Co. v. Haworth*, 300 U.S. 227, 240-41 (1937); *Winsor v. Daumit*, 185 F.2d at 43. The controversy, in addition, must be in regard to a federal question, in this case the validity of Allen's patent, or otherwise meet diversity requirements. These latter aspects of the matter are not in dispute. Even so, the application of the general "controversy" rule to a particular patent matter is not easy and may involve a determination of whether in a gray area the gray is dark enough. The determination of controversy between licensee and patentee does not qualify as a scientific exercise.

In the present case, the licensee is still operating under the license and paying the royalties, not to the licensor, but into court pending the resolution of the validity issue. The patentee is not receiving its royalties, but they are accumulating in a safe place for Allen if it is found to be entitled to them. The trial court has prohibited the termination of the license. Before placing this gray area into a legal spectroscope, some additional surrounding circumstances must be noted. In addition to the other licensees challenging validity in this action, Allen, at the time Bear intervened, was already engaged in infringement actions against a former license and another manufacturer in other jurisdictions.

These additional facts are significant here because Allen also relies on the *Thiokol* cases to support its view that a valid license precludes any reasonable apprehension of an infringement suit and thus there can be no actual controversy. In the first *Thiokol* suit, the licensee sued the patentee seeking a declaratory judgment that the patent was invalid. On the theory that the validity of the patent could arise only as a defense in a suit by the patentee for breach of contract to pay royalties, the district court was affirmed in its dis-

missal. After that dismissal the situation developed further. The licensee brought a similar suit after being sued by the patentee for unpaid royalties in a state court and after the termination of the license. This time the district court denied the motion to dismiss and was affirmed on the basis that the termination of the license agreement removed the obstacle to federal jurisdiction and left a justiciable controversy. Four years later in *American Sterilizer Co. v. Sybron Corp., supra,* the Third Circuit after considering *Lear* held that a licensee may challenge patent validity in a declaratory judgment proceeding without first terminating the license. *Thiokol* in that circuit appears to be limited to cases lacking diversity jurisdiction.[6]

Lear has caused some disarray among the circuits when its policy pronouncements have been extracted to be applied in other contexts. *Lear* overruled *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950), by holding that a licensee is not estopped to interpose the invalidity of the patent as a defense to an action by the licensor to enforce the license agreement. The policy supporting the lifting of the license estoppel limitation was explained:

> Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolist without need for jurisdiction.

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[6]*See* 526 F.2d at 549 n.13.

395 U.S. at 670. *Lear* confers no new jurisdiction on federal courts. In determining, however, whether an "actual controversy" exists in a particular circumstance, a determination which cannot be mechanically arrived at, the *Lear* rationale deserves to have some influence.

The third, as we have seen in *Thiokol*, and the Tenth Circuits, appear to have taken the position in some circumstances that so long as there is a valid license the federal court has no jurisdiction to determine a patent validity charge. *Product Engineering & Mfg., Inc. v. Barnes*, 424 F.2d 42 (10th Cir. 1970). *Components, Inc. v. Western Electric Co.*, 318 F. Supp. 959 (D. Me. 1970), adopted a similar approach. This circuit by reason of *Milprint* has been considered by some to be in that category. However, in contrast the Circuit Court of Appeals for the District of Columbia, and district courts in the Eighth and Ninth Circuits have been influenced by *Lear* and have permitted challenges to patent validity during the pendency of the license. *Warner-Jenkinson Co. v. Allied Chemical Corp., supra; Hanes Corp. v. Millard*, 531 F.2d 585 (D.C. Cir. 1976); *Medtronic, Inc. v. American Optical Corp.*, 327 F. Supp. 1327 (D. Minn. 1970); *Sargent Industries, Inc. v. Lear Siegler, Inc.*, 200 U.S.P.Q. (BNA) 251 (C.D. Cal. 1977)[7]

Milprint should not be interpreted as concluding that in this circuit a valid license necessarily and always precludes jurisdiction to enterain a licensee's challenge to the validity of the patent. In *Milprint*, as we have noted, the licensee only sought to test out his invalidity defense to a pending state court action brought by the licensor. Our prior holding in *Beckman Instruments, Inc. v. Technical Developments*

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[7]For a discussion of these cases and the conflicts in the circuits, see Smith, *Foreclosure of Licensee Validity Challenges with Procedural Barriers: Federal Jurisdiction*, 16 Idaho L. Rev. 177 (1980); 61 J. Pat Off. Soc. 690 (1979).

Corp., 433 F.2d 55 (7th Cir. 1970), *cert. denied*, 401 U.S. 976 (1971), may also be subject to the interpretation that license termination is always a precondition to a validity challenge by a licensee as otherwise there would be no actual controversy.[8] *Beckman*, however, if read that way is being misinterpreted. In *Beckman*, the licensee sued the licensor seeking a declaration of invalidity, non-infringement of a particular patent in a licensing package, and in addition, charged various forms of patent misuse through the provisions of the licensing agreement. On the validity issue, no "actual controversy" issue was raised. However, it may be that any misreading of the case is generated by a discussion of the termination provision of the package license agreement which provided in part that the licensee would have to abandon a particular field of its operations unless it paid royalties regardless of whether the licensee actually made use of a patent. Since it was not alleged by the licensee that it intended to terminate its royalty obligation, there was no actual controversy about that narrow termination issue of the license agreement, a contract issue. *Beckman* cites in support *Wembley, Inc. v. Superba Cravats, Inc.*, 315 F.2d 87 (2d Cir. 1963). In that case the plaintiff, not a licensee, sought a declaration that the patentee's license was invalid. That court held that because the plaintiff had failed to allege that it might actually be already engaged in infringing conduct or had the immediate intention and ability to do so, there would be no actual controversy. *Wembley* is not relevant to the present case. Neither *Milprint* nor *Beckman* control.

So do we have an "actual controversy"? We think sufficient controversy has been alleged in this case to meet the constitutional standard. The controversy, among other

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[8]16 Idaho L. Rev. at 196; 61 J. Pat Off. Soc. at 714-15.

things as we have noted, must be "definite and concrete," "appropriate for judicial determination," not hypothetical or abstract, but "real and substantial." But in the final analysis "when all the axioms have been exhausted and all words of definition have been spent, the propriety of declaratory relief in a particular case will depend upon a circumspect sense of its fitness informed by the teachings and experience concerning the functions and extent of federal judicial power." *Public Service Commission of Utah v. Wycoff Co., Inc.*, 344 U.S. 237, 243 (1952). A court must be able to see the legal issue to be decided, the effect its decision will have on the parties and that some useful purpose can be achieved. 344 U.S. at 244.

The legal issue is the validity of the patent. the decision will impact upon the business dealings between the parties. The useful purpose served is to bring the contest to an end between the parties and in the spirit of *Lear* to test out whether or not the patentee is entitled to the monopoly and royalties it claims or whether what it seeks to protect for itself is really part of the public domain. The licensee, with its payment of royalties dependent upon validity, usually is the one with enough at stake to justify instigating a validity determination. The licensee need not sit back and continue to wonder if it is justly paying royalties or merely paying a bribe to the patentee not to threaten him with business disruption and a possible damage suit if he terminates royalty payments. On the other hand, the owner of a patent should be protected from needless defense of his invention in expensive and burdensome litigation. *American Needle & Novelty Co. v. Schuessler Knitting Mills, Inc.*, 379 F.2d 376, 379 (7th Cir. 1967). It would, of course, not be desirable to stifle invention.

There is another ingredient needed in trying to bring these diverse interests into some balance. The licensee must first

suffer a reasonable apprehension that the patentee will bring an infringement suit against him if there is non-compliance with the license. *Milprint, Inc. v. Curwood, Inc.*, 562 F.2d at 421. That apprehension was specifically alleged in Bear's complaint based upon the other infringement lawsuits already brought by Allen against other manufacturers of the product.[9] One of the objections of Allen in this appeal is that it is temporarily enjoined from terminating Bear's license. Therefore, if not for the injunction it is obvious Allen would seek to terminate the license because it does not have possession of the escrowed royalties. Termination of the license due to failure to pay royalties, in light of the other litigation previously made known to Bear by Allen, forecasts a suit for damages against Bear.

It is a practical and sensible temporary solution while validity is determined to permit the licensee to continue under the license by paying the royalties into the court's escrow account in safekeeping for Allen if it is determined that Allen has a valid patent entitling it to those royalties.

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[9]Bear's complaint alleged in part:

6. On information and belief, the defendants have initiated lawsuits in several jurisdictions alleging, *inter alia*, infringement of U.S. Patent 3,486,495 on the part of other manufacturers of "compound bows". On the basis of its allegations contained herein that U.S. Patent 3,486,495 is invalid and unenforceable, BAC has ceased paying royalties under the aforesaid license agreements directly to defendant Allen Archery, Inc., and instead is seeking leave to pay royalties due under the existing agreement into this Court. Upon information and belief, defendant Allen Archery Inc. has sued or counterclaimed against at least one other licensee who has ceased paying royalties and/or has sought leave to pay royalties into Court. BAC therefore has more than a reasonable apprehension that it too will be sued for infringement of the foregoing patent and that defendants will seek to terminate its license agreement and will also seek an injunction to disrupt BAC's commerce in "compound bows" and to attempt to prohibit it from the manufacture, use and sale thereof.

7. An actual controversy exists between BAC and defendants concerning the validity and enforceability of U.S. Patent 3,486,495 and declaratory relief is therefore necessary and proper.

On the other hand, if it is determined that Bear is paying royalties for nothing, its post-challenge royalties will likewise be in safekeeping for return by the court. The financial risk for both parties is minimized. We see no need to force a party to take some additional act to deepen gray into black and to expand the potential of litigation resulting in further business disruption while we pretend in the meantime that there is no actual controversy.

We find there is sufficient controversy for jurisdiction.

Post-Challenge Royalties

The remaining related issue questions the trial court's injunction permitting Bear to continue marking its product while paying the post-challenge royalties not to Allen, but into the court's escrow account while at the same time enjoining termination *pendente lite* of Bear's license by Allen. Allen is saying, relying on *Kraly v. National Distillers & Chemical Corp.*, 502 F.2d 1366 (7th Cir. 1974), that Bear should not be given the opportunity to recoup the royalties accumulating in escrow while Bear is still marking its product awaiting a validity determination. Allen claims those interim royalties as its own regardless.

The district court read *Kraly* so as to permit Allen to recoup all royalties due from Bear up until the time Bear intervened and challenged Allen's patent. Those royalties accruing under the license were therefore not not escrowed. However, *after* Bear's challenge all royalties accruing under the license were directed to be paid into escrow. Allen reads *Kraly* as holding that it is immediately entitled to all the royalties without any detour into escrow as long as Bear marks its products and has the protection of the patent. Allen claims it is entitled to royalties up until the time the license may actually be renounced by the licensee. Neither view

is a totally unjustified interpretation, but *Kraly* imposes no straight-jacket on the present case.

In *Kraly* we held that the licensee was not estopped from challenging the validity of the patent even though a consent decree entered in prior litigation by which the licensee gained the license provided that the licensee would not challenge the patent. The patent was found to be invalid, but the patentee was allowed royalties up until the time that the licensee stopped marking its products on the equitable principle that the licensee had enjoyed the benefit of the license during that period. In the present case, the district court noted that in *Kraly* the licensee stopped marking only several months after the challenge of invalidity arose in the litigation and interpreted that to mean that the litigation challenge by the licensee was at least as important a consideration as the termination of the marking. The controversy in *Kraly* had originally arisen because the licensee claimed the patentee violated the license by failing to take action against unlicensed sales by others. In *Kraly* no issue was originally raised or briefed by the parties in the district court as to when the royalty obligation terminated or who was entitled to what. The thorough district judge went ahead and resolved the unaddressed question on his own. 177 U.S.P.Q. (BNA) 364, 370 (N.D. Ill. 1973). It is questionable whether Bear is actually enjoying any benefit from the license.

The present case has some further different factual ingredients not yet mentioned. The district court found that should Bear prevail and the patent was held to be invalid that Bear would be unable to recover any royalties already directly paid to Allen, and further that there was a reasonable likelihood of success by Bear in its challenge to validity. Those findings suggested the escrow arrangement as an equitable as well as practical temporary resolution for both parties. Escrow was not an entirely new idea in these

circumstances. *USM Corp. v. Standard Pressed Steel Co.*, 524 F.2d 1097, 1099-1100 (7th Cir. 1975). In *Atlas Chemical Industries, Inc. v. Moraine Products*, 509 F.2d 1, 7 (6th Cir. 1974), it was found to be a commendable procedure since it preserved the royalties until patent validity could be resolved. The patentee had the assurance that if it ultimately prevailed on validity the accruing royalties would be immediately payable with interest without additional proceedings. Risk for the patentee, as well as for the licensee, was therefore minimized.

In *USM Corp. v. Standard Pressed Steel Co.*, following about a year after our *Kraly* decision, we noted that *Kraly* had determined entitlement to unpaid royalties by the application of equitable principles and relevant policy considerations. We found it unnecessary at that stage of the *Steel* case, it being before us on an interlocutory appeal, to decide whether the patentee or licensee would ultimately be entitled to royalties attributable to the period of the pendency of the litigation, but we did decide that entitlement would not depend on who had possession of the royalties. The licensee sought a preliminary injunction against termination of the license offering to pay the royalties into escrow so that they might be returned if the patent was found to be invalid but preserving its rights under the license. The royalties, however, were to be delivered from escrow to the licensor in the event the patent was found valid, much like in the present case. We held that there was no need for a preliminary injunction because there was no contention that the licensor would be unable to refund royalties if the patent was ultimately held invalid, a finding contrary to the finding in the present case. 524 F.2d at 1100. We postponed until another day when it might be necessary to decide the issue of entitlement to interim royalties.

That day has arrived. Notwithstanding *Kraly*, the decision of this court in *Steel* viewed entitlement of interim royalties as an open question. There would have been no need to consider an escrow arrangment had *Kraly* been viewed as controlling. Under the circumstances in *Steel*, royalty entitlement was determined not to be ready for resolution partly because both parties had briefed and argued only on the assumption that royalties accruing during the pendency of the litigation depended on who had possession of the royalties at the time of final determination of validity. Possession during the interim, this court held, was not controlling, but this court went no further. It was said that when the question might be more fully and satisfactorily briefed, this court could better consider the question. The present case is also an interlocutory appeal, but we see no advantage at this time to the court or the parties in postponing resolution further. The problem was carefully analyzed by Judge Baker and has been briefed and argued by the parties in this appeal. Since there has already been a finding of Bear's likelihood of success on the merits, there is no need to wait until the same issue may be presented when validity is ultimately determined. Also, Allen claims it is entitled to the accumulating royalties without delay. We concur with Judge Baker's analysis and briefly consider each possibility.

Bear argued below, but not here, that in the event of invalidity it should be entitled to all the royalties ever paid under the license, not just post-challenge royalties. That approach would permit the licensee to enjoy the protection of the patent during its term while harboring the intent of later suing to recover all royalties paid. That rule would not stimulate an early validity test as suggested by *Lear*, but would lend itself to abuse. *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253 (6th Cir. 1972), *Appeal after remand*, 489 F.2d 968 (1973).

Allen urges here that we adopt the "renunciation" rule which would entitle the patentee to recover all royalties so long as the licensee continues to mark its product and fails to renounce the license. Since Bear continues to mark, Allen would be entitled immediately to all the royalties accruing in escrow. Following our decision in *Kraly*, in addition to the reluctance to embrace a broad application of *Kraly* as seen in *Steel*, some of that same reluctance can be sensed in *Crane Co. v. AeroQuip Corp.*, 504 F.2d 1086 (7th Cir. 1974). In *Crane* we declined to decide whether the defendant was liable by reason of marking. The renunciation rule requires the licensee to prejudge validity, stop marking and paying royalties, and create a breach of the license. The licensee thereby assumes the risk that the patent may be valid. If his prejudgment turns out to be incorrect, he has presented the patentee with the option of rescinding the license and suing for infringement damages, which might exceed the royalties, or suing under the license for the royalties. Deliberately giving the patentee those options might be a risk a cautious licensee would not care to assume. A licensee might well decide that business disruption, time, expense, and possible liability were not worth the risk, and would therefore continue to go along paying the agreed to royalties without questioning validity. That approach does not foster the policy teachings of *Lear*.

Another possibility is to adopt the "eviction" rule which would permit the licensee to withhold or recoup all royalties accruing or paid only after final judgment of invalidity. Under that approach the licensee who prevailed in his invalidity challenge would, during the course of the litigation which may be expected to be extended, pay royalties for nothing of value. The patentee, on the other hand, would continue to benefit from his invalid patent. Given that prospect, it cannot be anticipated that a patentee doubtful of his

own patent would be anxious to resolve the litigation since the litigation was continuing the royalty benefit to him. *Lear* teaches that the expeditious resolution of unresolved issues of patent invalidity may prevent the public from continuing unjustified payment of tribute to would-be monopolists. 395 U.S. at 670. Even more specifically *Lear* finds no reason for continuing royalty payments during the time licensees are challenging validity in the courts. That policy, it is pointed out, would only encourage dilatory tactics. 395 U.S. at 673. Allen argues, however, that the public policy in *Lear* would not be frustrated in a situation where Bear could keep its license *pendente lite* by escrowing royalties on the products which it does not choose to mark, but would be required to pay Allen royalties for products it did mark. That is a possibility suggested by an amendment to the injunction which provided that payment of royalties into escrow on products not marked would not constitute a breach of the license agreement. Allen claims that utilizing that possibility would require Bear to pay royalties only for the privilege of publicly claiming the protection of the patent it alleges is invalid. However, it increases the licensee's risk of a damage suit if the litigation results in an unfavorable invalidity finding. We see no advantage to that narrow and uncertain course.

Under the challenge approach adopted by the district court, all the post-challenge royalties are safely in escrow for whomever may be found to be entitled to them. It appears delay in resolution of the controversy favors neither party. Nor is either party made to assume risks not necessary to the resolution of validity. We adopt that approach. It is not a new one. *Atlas Chemical Industries, Inc. v. Moraine Products*, 509 F.2d 1 (6th Cir. 1974). *Atlas* has been followed recently in the Ninth Circuit, *St. Regis Paper Co. v. Royal Industries*, 552 F.2d 309, 314 (9th Cir. 1977). Likewise in

Warner-Jenkinson Co. v. Allied Chemical Corp., 567 F.2d 184, 188 (2d Cir. 1977), an appeal from the dismissal of a patent challenge by a licensee, the court in reversing noted that all royalties paid after the complaint was filed would be subject to restitution in the event of invalidity. The court declined, however, to order the royalties paid into escrow in the absence of any indication that the patentee might be judgment proof. In the present case the district court made up for that possible deficiency by its finding that Bear, if required to pay all royalties directly to Allen would have no adequate remedy at law to recoup the post-challenge royalties.[10]

We endorse the district court's approach to this case.

Affirmed.

A true Copy:
Teste:

Clerk of the United States Court of Appeals for the Seventh Circuit

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[10]The holding in this case is not intended in any way to reflect on the ultimate determination of the validity of the patent.

APPENDIX B.

Opinion of the District Court, 196 USPQ 502.

In the United States District Court for the Eastern District of Illinois.

Precision Shooting Equipment Co. and Paul E. Shepley, Jr., Plaintiffs, v. Holless W. Allen and Allen Archery, Inc., Defendants. NO. CS-77-0152-D.

PRELIMINARY INJUNCTION

This cause coming on to be heard on the motion of plaintiffs for a preliminary injunction against defendants, and due notice having been given to the defendants, and plaintiffs being represented in open court by their attorney, Thomas E. Harrington of Busch, Harrington & Porter; and defendants being represented in open court by their attorney, D.A.N. Chase of Kansas City, Missouri, and their local counsel, F. Daniel Welsch and William A. Young of Young, Welsch, Young and Hall; and the court having considered the Complaint, the Amended Complaint, the affidavits submitted in support of Plaintiffs' Motion for Temporary Restraining Order, the testimony of Douglas Allen, President of defendant Allen Archery, Inc., and the exhibits submitted to the court during the hearing in open court and *in camera* on the motion, and having heard the arguments of counsel, makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. The Letters Patent in question were granted to defendant Holless W. Allen in 1969, who sold his interest therein to defendant Allen Archery, Inc., a corporation, by written assignment recorded in the U.S. Patent Office on June 18, 1974.

2. Said corporation is wholly owned by defendant Holless W. Allen and members of his family. Certain other matters pertaining to Holless W. Allen, Allen Archery, Inc., said assignment and said patent, including financial statements, were the subject of *in camera* proceedings and at defendant's request are the subject of a separate protective order entered herein. Said matters, including testimony and exhibits (to be kept under seal and to be opened only on order of court), are a part of the record of these proceedings and were considered by this court in arriving at the decision herein expressed.

3. Plaintiffs, pursuant to license agreement (Exhibit A attached to the Complaint herein), have paid approximately $285,000 in royalties prior to August 10, 1977, to defendants (or either of them) pertinent to the patent in question, and it appears reasonably likely that plaintiffs will, within the next two years, become obligated under said license agreement for further royalties to defendants in an amount approximating $500,000.

4. At the time of filing the Complaint, plaintiffs paid into this court the sum of $47,901.39, being the amount of the royalty payment admitted to be due under the agreement attached to the Complaint, and an additional $6,000 as bond pursuant to this court's Temporary Restraining Order, dated August 16, 1977.

5. Defendants' said patent has been, is, and it appears reasonably likely that it will in the future be the subject of other litigation.

6. Defendants, or one of them, being the patent owners, have disclaimed claims 1, 2 and 11 of the subject patent.

7. It is reasonably likely that the plaintiffs may prevail in this declaratory judgment action, and in that event it is reasonably likely that the defendant corporation would be

unable to repay the substantial royalties paid by plaintiffs under said License Agreement.

8. Plaintiffs have reasonable fear that they would be irreparably damaged if required to pay royalties directly to defendants, or either of them, during the pendency of this lawsuit, because of potential inability to repay.

9. Where any finding of fact, in whole or in part, may be construed as a conclusion of law, it should be so construed.

CONCLUSIONS OF LAW

1. A licensee may contest the validity of a licensed patent, may challenge whether certain products fall within a license agreement, and may challenge whether he is entitled to more favorable terms which may have been given to other licensees. *Lear v. Adkins*, 395 U.S. 653 (1969).

2. A patent licensee who wishes to continue using a patent cannot withhold royalty payments without risking a patent infringement suit and an injunction against all future use of the patent.

3. Where there is strong indication that the patent owner might not be financially able to repay royalties at the end of the litigation, it should be deprived of its right to receive royalties in the interim, so long as they are safely paid into escrow as here required.

4. It is clear under the "Blonder-Tongue" doctrine [*Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 169 U.S.P.Q. 513 (1071)] that once a patent is declared invalid in any district, that judgment automatically applies to any other district.

5. The issue of escrowing royalty payments where the defendant's financial ability to repay has been challenged

appears to be a question of first impression within the Seventh Circuit.

6. No damage has been caused to defendants as a result of the temporary restraining order granted heretofore; defendants had intended to raise the subject matter of this complaint in this district; and there is a reasonable likelihood of success by plaintiffs in their declaratory judgment action and thus a reasonable likelihood of irreparable damage to plaintiffs if they were required to continue to pay royalties to defendants, or either of them, during the period required for such litigation.

7. Wherever any conclusion of law, in whole or in part, constitutes a finding of fact, it shall be so construed.

* * * *

IT IS THEREFORE ORDERED that the defendants Holless W. Allen and Allen Archery, Inc., a corporation, and their officers, attorneys, servants, agents, associates, members, employees, and all persons acting in conjunction with the defendants or at their direction be, and they are hereby, until further order of this court, restrained and enjoined from bringing any other action in any other court, whether state or federal, against the plaintiffs or their assigns with regard to any subject matter which has been, reasonably could be, or will be pleaded to or counterclaimed in this action, until the subject matter raised by the Complaint herein has been disposed of by a final court order, or otherwise by agreement of the parties approved by this court.

IT IS FURTHER ORDERED that the plaintiffs, Precision Shooting Equipment Co. and Paul E. Shepley, Jr., or their assigns, shall continue to pay into this court all amounts of royalties which shall accrue under the License Agreement attached to the Complaint, pending the final disposition of this matter by court order, or otherwise by agreement of the

parties approved by this court; and it is further ordered that all royalties paid in to court by plaintiffs shall be deposited by the clerk of this court in an interest bearing account or invested in interest bearing securities of the United States of America until further order of the court.

IT IS FURTHER ORDERED that the bond on said temporary restraining order is hereby discharged, but that security in the amount of $6,000 shall be deposited by plaintiffs for the purposes of this preliminary injunction, and that plaintiffs hereby are permitted to allow said $6,000 on deposit to remain as this security under Rule 65(c), Federal Rules of Civil Procedure.

/s/ Robert D. Morgan
Robert D. Morgan
United States District Judge
(Sitting by designation in this district)

Entered: October 3, 1977
nunc pro tunc August 26, 1977

APPENDIX C.

Opinion of the District Court, Order and Preliminary Injunction 199 USPQ 459.

In the United States District Court for the Eastern District of Illinois.

Precision Shooting Equipment, Inc. and Paul E. Shepley, Jr., Plaintiffs, Bear Archery Co., Division of Victor United, Inc., Applicant for Intervention, v. Holless W. Allen and Allen Archery, Inc., Defendants. Civil Action No. 77-0152-D.

Filed Sept. 6, 1978.

ORDER AND PRELIMINARY INJUNCTION

This cause came on to be heard on June 9, 1978, on applicant for intervention Bear Archery Co.'s (hereinafter Bear) Motion to Intervene and Motion for a Preliminary Injunction, and the Court having considered Bear's proposed Complaint, Bear's Motion for Temporary Restraining Order Pursuant to Rule 65 FRCP, Bear's Motions Under Rule 65 FRCP (1) for Preliminary Injunction and (2) for an Order Permitting Payment of Royalties into Court, the affidavit submitted to support Bear's motions, and the affidavits, briefs and exhibits submitted in opposition to Bear's motions, and having heard oral arguments in open court, makes the following findings of fact and conclusion of law:

FINDINGS OF FACT

1. United States Letters Patent No. 3,486,495 issued to defendant Holless W. Allen in 1969 and was subsequently assigned to defendant Allen Archery, Inc.

2. Defendant Allen Archery, Inc. and Bear have entered into two successive license agreements with respect to patent No. 3,486,495, the current one of which is Exhibit B attached to Bear's proposed Complaint, and under said agree-

ments Bear has paid approximately $2 million to defendant Allen Archery, Inc. prior to May 2, 1978. It appears reasonably likely that Bear will, during the pendency of this action, become obligated under the current license agreement for further royalties to Allen Archery, Inc. in the amount of at least approximately $500,000 per year.

3. On May 2, 1978, at the time of filing of its foregoing motions and proposed complaint in this action challenging the validity of patent No. 3,486,495, Bear proffered to this Court the sum of One Hundred Seventeen Thousand, Eight Hundred Fourteen Dollars and Forty-Four Cents ($117,814.44), being the amount of royalty payments admitted to be due at that time under the agreement of Exhibit B for the quarterly period January 1—March 31, 1978. This amount was accepted by the Court by Order dated May 4, 1978, and deposited pursuant to that Order on May 12, 1978.

4. As a result of tests conducted in 1974 by defendant Holless W. Allen on a prior art Barna-type bow constructed under circumstances set forth in paragraphs 15, 16 and 17 of Allen affidavit dated May 23, 1978, in opposition to Bear's motions herein, a disclaimer of claims 1, 2 and 11 of patent No. 3,486,495 was filed in the United States Patent and Trademark Office by Allen Archery, Inc., and was published May 20, 1975, at 934 O.G. 888.

5. Said patent has already been challenged by the original plaintiffs in the instant action, as well as by other manufacturers of compound bows in other United States District Courts.

6. If Bear prevails in its declaratory judgment action, seeking that said patent be held invalid, unenforceable and/or not infringed, and royalty payments under the license agreement of Exhibit B are ordered refundable to Bear, it

is reasonably likely that defendant Allen Archery, Inc. would be unable to repay such royalties.

7. As a result of this likely inability to recoup its royalties from defendant Allen Archery, Inc. in the event that a refund is ordered, Bear would be irreparably damaged if required to pay royalties directly to Allen Archery, Inc. and would have no remedy at law with respect to recoupment thereof.

8. Defendants have failed to demonstrate any prejudice to them which might result from the granting of Bear's motion for a preliminary injunction *pendente lite*, and no damage has been caused to defendants as a result of the Temporary Restraining Order granted heretofore.

9. Royalties accrued under the current license agreement of Exhibit B for the period from January 1, 1978, through May 1, 1978, have not been paid to Allen Archery, Inc., and are not considered by this Court to be pre-challenge royalties.

10. Where any finding of fact, in whole or in part, may be construed as a conclusion of law, it should be so construed.

CONCLUSIONS OF LAW

1. Bear's moving papers establish a proper case for permissive intervention under Rule 24(b) F.R.C.P. and its motion to intervene should be granted.

2. During the pendency of an action where a licensee is challenging the validity of the licensed patent and the enforceability of the license, the licensee may keep its license by paying royalties into an escrow account when the licensor may not have sufficient financial resources to repay royalties accruing under the license, since the licensee is entitled to recover royalties if it is successful in its challenge.

3. In view of this Court's finding that defendant Allen Archery, Inc. might not be able to repay royalties should the patent in suit be declared to be invalid, Bear may during the pendency of this action properly pay royalties due under its license agreement into this Court in escrow rather than directly to defendant Allen Archery, Inc.

4. Pre-challenge royalties are only those *paid* to the patent owner before the date that the validity of the patent is challenged, and do not include unpaid royalties due or accrued before such date.

5. In view of the fact that some of the claims of the patent in suit have been disclaimed and since the validity of the patent is being challenged by *other* compound bow manufacturers in other United States District Courts, there is a reasonable likelihood of success by Bear in its declaratory judgment action and there is a reasonable likelihood of irreparable damage to Bear if it were to be required to continue to pay royalties under the license agreement of Exhibit B directly to defendant Allen Archery, Inc. during the pendency of this action.

6. Payment of royalties by Bear into court in escrow pursuant to this Order, including the royalty payment accepted by this Court on May 4, 1978, does not constitute a breach of the license agreement of Exhibit B and the license agreement is still in effect.

7. The past and continued marking by Bear of its compound bow products with the number of U.S. Patent 3,486,495, pursuant to the terms of its license agreement with defendant Allen Archery, Inc., is without prejudice to Bear's status as one challenging the validity of said patent in this Court and shall not act as a bar or estoppel to any right of Bear either to challenge the validity, enforceability and/or infringement of the patent or to any right of Bear to

recoup the royalties placed in escrow pursuant to this Order, and any other sums to which it may be entitled should the foregoing patent subsequently be declared to be invalid.

8. Wherever any conclusion of law, in whole or in part, constitutes a finding of fact, it should be so construed.

IT IS THEREFORE ORDERED:

(1) that Bear be permitted to intervene as a plaintiff in this action and that Bear's Complaint be submitted to the appropriate United States Marshal in the Western District of Missouri for service upon the defendants or served in any other appropriate manner as provided for in the Federal Rules of Civil Procedure;

(2) that the defendants Holless W. Allen and Allen Archery, Inc., a corporation, and their officers, attorneys, servants, agents, associates, members, employees and all persons acting on their behalf or at their direction be restrained and enjoined from bringing any other action in any other court, whether state or federal, against Bear or any of its customers, suppliers, persons controlling or controlled by Bear, or any other party associated or affiliated with Bear with regard to any subject matter which might reasonably be pleaded to or counterclaimed in this action or arising out of or relating to the foregoing license agreement or U.S. Patent No. 3,486,495;

(3) that Bear shall be permitted to continue to pay into this Court all amounts of royalties which shall accrue under the license agreement of Exhibit B pending the final disposition of this action by court order or otherwise by agreement of the parties approved by the Court. All such amounts paid into court by Bear shall be deposited by the Clerk of this Court in an interest-bearing account or invested in interest-bearing securities of the United States of America until further order of the Court;

(4) that Allen Archery, Inc. and all persons acting on its behalf or under its direction shall be enjoined from terminating the license agreement of Exhibit B so long as Bear complies with the provisions of that agreement, including the submission of quarterly royalty reports to Allen Archery, Inc., except as set forth in this Order;

(5) that this Order is temporary in nature and subject to modification by this Court upon motion duly brought by any party; and

(6) that Bear shall continue in full force and effect its present bond, posted herein at the time this Court issued the Temporary Restraining Order, in the sum of Six Thousand Dollars ($6,000), as security for the payment of such costs and damages as may be incurred or suffered by any party who is found to have been wrongfully enjoined or restrained.

/s/ Robert D. Morgan
Robert D. Morgan
United States District Judge

Entered: September 6, 1978
nunc pro tunc June 9, 1978

APPENDIX D.

Order of the Court of Appeals, for the 7th Circuit, December 22, 1978.

United States Court of Appeals, for the Seventh Circuit, Chicago, Illinois 60604.

December 22, 1978, Before, Hon. Wilbur F. Pell, Jr., Circuit Judge. Appeal from the United States District Court for the Eastern District of Illinois, Danville Division.

Precision Shooting Equipment Company and Paul E. Shepley, Jr., Plaintiffs-Appellees, and, No. 78-2357, Bear Archery Company, Division of Victor United, Inc., Intervening Plaintiff-Appellee. vs. Holless W. Allen and Allen Archery, Inc., Defendants-Appellants. No. 77-C-152 Judge Robert D. Morgan.

This matter comes before the court for its consideration on the filing herein of the following documents:

1. The "MOTION FOR LIMITED REMAND" filed herein on November 29, 1978 by counsel for the defendants-appellants.

2. The "APPENDICES TO MOTION FOR LIMITED REMAND" also filed herein on November 29, 1978 by counsel for the defendants-appellants.

3. "RESPONSE TO MOTION FOR LIMITED REMAND" filed herein on December 20, 1978 by counsel for the plaintiffs-appellees.

This court has thoroughly reviewed the aforesaid documents, and is fully advised concerning the circumstances of this matter. Accordingly,

IT IS ORDERED that the defendants-appellants' "MOTION FOR LIMITED REMAND" is hereby GRANTED. The clerk of this court is hereby directed to return the three volumes of "pleadings" in this matter to

the Clerk of the District Court for the Eastern District of Illinois, Danville Division, in order to afford Judge Robert D. Morgan the opportunity to modifiy or amend his "ORDER AND PRELIMINARY INJUNCTION" entered on September 6, 1978. The present appeal has been taken from that order.

IT IS FURTHER ORDERED that the clerk of the district court certify and retransmit that record, together with any additional ruling of Judge Morgan, to the clerk of this court within fifteen (15) days after the date of such further order by Judge Morgan.

APPENDIX E.

Decision and Order of the District Court, April 2, 1979.

United States District Court Central District of Illinois[1].

Precision Shooting Equipment, Inc. and Paul E. Shepley, Jr., Plaintiffs, Bear Archery Co., Division of Victor United, Inc., and Ben Pearson Archery, Inc., Intervenors, v. Holless W. Allen and Allen Archery, Inc., Defendants. Civil Action No. 77-0152-D.

Filed April 2, 1979.

This case is now before the court pursuant to order of the United States Court of Appeals for the Seventh Circuit, dated December 22, 1978, by Judge Wilbur F. Pell, Jr., granting defendants-appellants' Motion for Limited Remand "in order to afford Judge Robert D. Morgan the opportunity to modify or amend his 'ORDER AND PRELIMINARY INJUNCTION' entered on September 6, 1978," from which appeal had been taken. The said order of September 6, 1978, entered *nunc pro tunc* June 9, 1978, involved Intervenor BEAR ARCHERY CO., permitted it to intervene on conditions specified in that order, and enjoined defendants from suing BEAR elsewhere on the patient in suit, or from terminating the BEAR license thereunder. Defendants filed Notice of Appeal therefrom on October 5, 1979.

On November 28, 1978, *nunc pro tunc* November 6, 1978, this court permitted another license of defendants, Ben Pearson Archery, Inc., to intervene and to pay post-challenge royalties into court, with similar injunction to defendants. By application of the equitable principles rec-

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[1]This case, filed in Danville, Vermilion County, is now a Central District case, by virtue of Sections 4(b) and 5 of the Federal District Court Organization Act of 1978, Public Law 45-408 (92 Stat. 883).

ognized in the Seventh Circuit decision in *Kraly v. National Distillers and Chemical Corporation,*[2] this court required the licensee to pay pre-challenge royalties direct to defendants on all products sold prior to suit and marked with the number of the licensed patient pursuant to the license agreement, permitting payment into court of such post-challenge royalties only in products sold subsequently and not so marked. The September 6, 1978 order permitted payment into court, for possible adjudicated return to the licensee BEAR, without risk of possible inability of defendants to do so, of all royalties not past due and unpaid at the time of suit.

It is apparent that the remand was granted to allow this court to establish consistency between its two orders herein which permitted intervention. Defendants now move the court, under Rule 52(b), F. R. Civ. P., to amend the September 6, 1978 order (involving BEAR), to conform it in this regard to the November 28, 1978 order (involving BEN PEARSON). Bear opposes this motion and moves the court to modify the September 6, 1978 order by finding as facts that Bear has charged defendants with fraud in procurement of the patent, and that a prima facie case of misconduct has been made sufficient to make likely a judgment rendering the license void and permitting recovery of all license fees paid thereunder. It is argued that such is fully justified by facts learned in discovery, that such distinguishes this case from *Kraly, supra,* and reverses the controlling equities which are applicable. Defendants, of course, do not agree on any point. Scholarly memoranda have been provided to

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[2]177 USPQ 364 (N.D. Ill.), aff'd 502 F.2d 1366 (7th Cir. 1974). That decision and those principles had been simply overlooked in issuance of the September 6, 1978 order now under reconsideration.

the court by counsel for the parties here involved, for which the court is grateful.

While the court does not agree with defendants' position that the court has no jurisdiction to amend the September 6, 1978 order on Bear's request as beyond the limitations on the remand, and does not consider Bear's request to be untimely under the existing circumstances, it is the decision of this court on the remand that defendants' motion under Rule 52(b), F. R. Civ. P., should be allowed because the *Kraly* principles of equity are applicable here.

Bear, of course, should be free, on the basis of its theory, to treat the patent and license as void, to stop making royalty payments thereunder, and to sue for recovery of past payments, with the recognized risks attendant upon that course of action. That, it has not chosen to do, however, because it here seeks to preserve the benefits of the patent and its license agreement in the event that the patent is ultimately held valid. This, having it both ways, is precisely what the *Kraly* principles seem clearly to preclude in these circumstances, and that case is the controlling law in this circuit. The other cases cited by the parties are considered inapposite in these circumstances and thus require no further discussion.

Accordingly, IT IS ORDERED that defendants' motion filed January 10, 1979, under Rule 52(b), Federal Rules of Civil Procedure, to Amend Findings and Judgment, is in all respects ALLOWED, and the order of this court entered September 6, 1978, *nunc pro tunc* June 9, 1978, is hereby AMENDED as specified in said motion.

IT IS FURTHER ORDERED that, upon his request, the defendants and BEAR ARCHERY CO. shall promptly and jointly specify to the Clerk of this court, in a writing signed on behalf of each by counsel or authorized officer, the

amount now payable under paragraph (4) of said judgment order as now amended, on the basis of accounting between them under said license agreement, and interest actually earned. Upon any failure of such joint specification within thirty (30) days following any such request by said Clerk, the parties shall each state to the court their respective positions resulting in such failure, for resolution of the issues by the court.

/s/ Robert D. Morgan
Robert D. Morgan
United States District Judge

Entered: April 2, 1979

APPENDIX F.

Order of the Court of Appeals, for the 7th Circuit, June 1, 1979.

United States Court of Appeals, for the Seventh Circuit, Chicago, Illinois 60604.

June 1, 1979. Before, Hon. WILBUR F. PELL, JR., Circuit Judge. Appeal from the United States District Court for the Eastern District of Illinois, Danville Division.

Precision Shooting Equipment Company and Paul E. Shepley, Jr., Plaintiffs-Appellees, and Bear Archery Company, Division of Victor United, Inc., Intervening Plaintiff-Appellee, No. 78-2357, vs. Holless W. Allen and Allen Archery Inc., Defendants-Appellants. No. 77-C-152. Judge Robert D. Morgan.

This matter comes before the court for its consideration upon the filing herein of the following documents:

1. The "MOTION TO EXTEND JURISDICTION OF THE DISTRICT COURT UNDER REMAND ORDER DATED DECEMBER 22, 1978" filed herein on May 4, 1979 by counsel for the intervening plaintiff-appellee.

2. The "DEFENDANTS' RESPONSE TO MOTION TO EXTEND JURISDICTION OF THE DISTRICT COURT UNDER REMAND ORDER DATED DECEMBER 22, 1978" filed herein on May 16, 1979 by counsel for the defendants-appellants.

3. The "REPLY OF BEAR ARCHERY TO DEFENDANTS' RESPONSE TO MOTION TO EXTEND JURISDICTION OF THE DISTRICT COURT UNDER REMAND ORDER DATED DECEMBER 22, 1978" filed herein on May 21, 1979.

4. The "MOTION FOR LEAVE TO FILE BRIEF" filed herein on May 30, 1979 by counsel for the intervening plaintiff-appellee.

5. The "SUPPLEMENTAL REPLY OF BEAR TO DEFENDANTS' RESPONSE TO MOTION TO EXTEND JURISDICTION OF THE DISTRICT COURT" filed as of this date by counsel for the intervening plaintiff-appellee.

On consideration thereof,

IT IS ORDERED that the intervening plaintiff-appellee's "MOTION FOR LEAVE TO FILE BRIEF" is hereby GRANTED. The clerk of this court is directed file herein instanter the four tendered copies of the "SUPPLEMENTAL REPLY OF BEAR TO DEFENDANTS' RESPONSE TO MOTION TO EXTEND JURISDICTION OF THE DISTRICT COURT."

IT IS FURTHER ORDERED that the intervening plaintiff-appellee's "MOTION TO EXTEND JURISDICTION OF THE DISTRICT COURT UNDER REMAND ORDER DATED DECEMBER 22, 1978" is hereby GRANTED, and the remand order of this court is extended to permit the district court to consider the motion to amend the judgment and findings filed by Bear Archery Company.

We note that the matter has now been reassigned to a new district court judge and so permit remand for additional consideration. However, further remands or extensions of jurisdiction of the district court are not contemplated.

APPENDIX G.

Opinion of the District Court, 205 USPQ 149.

United States District Court, Central District of Illinois.

Precision Shooting Equipment, Inc. and Paul E. Shepley, Jr., Plaintiffs, Bear Archery Co., Division of Victor United, Inc. and Ben Pearson Archer, Inc., Intervenors, vs. Holless W. Allen and Allen Archer, Inc., Defendants.

Filed Aug. 1, 1979.

ORDER

In this action to declare a patent invalid, the plaintiffs and intervenors have moved for consideration of the court's order of September 6, 1978. That order granted the defendant licensor the right to withdraw escrowed prechallenge royalties and postchallenge royalties on marked products.

The plaintiffs intervenors appealed from the enforcement of the September 6, 1978 order and, concurrently, sought reconsideration in this court. By order of June 1, 1979, the United States Court of Appeals for the Seventh Circuit, observing that the case had been assigned to a new District Judge, extended the jurisdiction of this court to reconsider the September 6, 1978 order.

On reconsideration, the court concludes that the September 6, 1978 order should be modified and the defendants should not be permitted to withdraw the escrowed royalty payments, both prechallenge and postchallenge, at least without an adequate guarantee of repayment in the event plaintiffs and intervenors are ultimately successful.

Lear Inc. v. Adkins, 395 U.S. 656 (1968) teaches us that the patent estoppel doctrine which prevented a licensee under a license agreement from enjoying the benefits of the agreement, while simultaneously urging the invalidity of

the patent, is contrary to the national policy to eliminate specious patents and to place common ideas in the public domain and general circulation.

In passing on the right of the licensor to receive royalties during the pendency of the contest of the patent's validity, the court held:

> "The parties' contract, however, is no more controlling on this issue than is the State's doctrine of estoppel, which is also rooted in contract principles. The decisive question is whether overriding federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts.
>
> It seems to us that such a requirement would be inconsistent with the aims of federal patent policy. Enforcing this contractual provision would give the licensor an additional economic incentive to devise every conceivable dilatory tactic in an effort to postpone the day of final judicial reckoning." *Id.* at 673.

Kraly v. National Distillers and Chemical Corp., 319 F.Supp. 1349, (N.D. Ill. 1970) aff'd 502 F.2d 1373 (CA7 1974) dealt with the question of the right to receive royalties during a case contesting the validity of a patent.

> "Defendant has alleged, as the basis of its counterclaim, that plaintiff procured her patent by fraud."
>
> "Suffice it to say that if defendant can establish its claim at trial, then it will be entitled to appropriate relief. If plaintiff is correct and there is no such evidence, the counterclaim will fall." 319 F.Supp at 1354
>
> "We have considered National Distillers' claim that Kraly's alleged misrepresentation to the U. S. Patent Office precludes any award of royalties. We find that the actions of Kraly's attorney [not the attorney of record in this appeal] was hardly exemplary and agree with the district court that "[i]t is inconceivable that

> in any but an ex parte proceeding such a contention [i.e., Kraly's claim of inventiveness] would have been successful or would even have been urged by an attorney who had previously written to his client that, in his opinion, "no invention is involved" in either the triggering mechanism or the shape." Nonetheless, we do not find that such conduct amounted to a misrepresentation. We therefore affirm the district court's award of royalties." 502 F.2d at 1373

From *Kraly, supra,* it is apparent that if fraud and misrepresentation in procurement of the patent can be established then an award of royalties will be denied. Here, the challengers have alleged fraud in the procurement and the ultimate determination of that issue must abide a trial on the merits. In the interim, the escrowing of royalties with the court safeguards the interests of all parties while a release of royalties conceivably could jeopardize the challengers' rights to retain the royalties in the event of ultimate success.

Accordingly, the order of September 6, 1978, is modified and those portions permitting the withdrawal of escrowed royalties are vacated.

The court has been hampered somewhat by removal of portions of the record to the Court of Appeals. The modification of the September 6, 1978 order should render the appeal moot and upon return of the record to this court appropriate formal modifications of the order can be made.

ENTERED this 1st day of August, 1979.

/s/ Harold A. Baker
U. S. District Judge

IT IS FURTHER ORDERED that the status call previously set for October 29, 1979 has been vacated and the matter re-set for status call October 30, 1979 at 1:00 P.M.

APPENDIX H.

Opinion of the District Court, 492 F.Supp. 79, 205 USPQ 1142.

United States District Court, Central District of Illinois.

Precision Shooting Equipment, Inc. and Paul E. Shepley, Jr., Plaintiffs, Bear Archery Co., Division of Victor United, Inc. and Ben Pearson Archery, Inc., Intervenors, vs. Holless W. Allen and Allen Archery, Inc., Defendants. No. 77-0152-D.

Filed Feb. 8, 1980.

ORDER MODIFYING PREVIOUS ORDERS ESTABLISHING ROYALTY ESCROW FUND AND SUPPORTING MEMORANDUM OF LAW

The plaintiffs have challenged the validity of a patent held by the defendants. In addition to a declaration that the patent is invalid, the plaintiffs seek to recover the royalties which have accrued under licensing agreements between the plaintiffs and the defendants.

By interlocutory orders the court directed that certain royalties be paid to the Clerk of Court and held in escrow until a final determination of the issue in the case.

I

The case is once more before the court on motions to modify certain interlocutory orders. The plaintiffs seek to continue their payment of royalties into escrow while the defendants have moved that the escrowed royalties be released to them. The defendants, in conjunction with asserting claim to the escrowed royalties, also seek an order calling upon the plaintiffs to demonstrate in an evidentiary hearing that they can prove a *prima facie* case of fraud against the defendants. To know where we are and what the present posture of the case is, a review of the chronology

of orders is necessary. For brevity and understanding, the plaintiffs Precision Shooting Equipment, Inc., and Paul E. Shepley, Jr. are referred to as Precision. The intervening plaintiff, Bear Archery Co., Division of Victor United, Inc., is referred to as Bear. The intervening plaintiff, Ben Pearson Archery, Inc., is referred to as Pearson. The defendants, Holless W. Allen and Allen Archery, Inc., are referred to as Allen.

Precision filed suit on August 15, 1977, challenging the validity of United States Letters Patent No. 3,486,495 which had been issued in 1969 to Allen. On May 2, 1978, Bear, one of Allen's licensees, sought leave to intervene as a plaintiff and challenge Allen's patent. On September 6, 1978, *nunc pro tunc* June 9, 1978, the court, (Morgan, C.J.) entered an interlocutory order which, after making findings of fact and conclusions of law, enjoined Allen from terminating the licensing agreement with Bear and from filing suit against Bear for the collection of royalties due under the licensing agreement. The order permitting Bear to pay into a court-held escrow fund both accrued but unpaid royalties, and royalties to become due in the future. The order also permitted Bear to continue to mark its product with the number of the challenged patent. The escrowed royalties were to be disbursed upon further order of the court.

Allen appealed from the September 6, 1978, order and prayed a dissolution of the temporary injunction and release of the escrowed royalties.

On November 28, 1978, another of Alen's licensees, Pearson, sought and was granted leave to intervene and challenge Allen's patent. The court allowed Pearson to pay royalties that would accrue in the future into the escrow fund that had been established. However, the court directed Pearson to pay all royalties accrued to the date of Pearson's

intervention directly to Allen. Pearson paid the accrued royalties to Allen and that aspect of the interlocutory orders is not in question here.

On April 2, 1979, Judge Morgan modified the interlocutory order of September 6, 1978. He modified the order after a limited remand by the Court of Appeals for the Seventh Circuit which afforded the district court "the opportunity to modify or amend" the September 6, 1978, order from which Allen had appealed. Judge Morgan concluded that the intent of the remand was to permit him to harmonize the Bear and Pearson orders as they applied to the escrow of royalties due under the licensing agreements between the plaintiffs and the defendants. Accordingly, Judge Morgan modified the escrow order as it applied to Bear but not to Pearson. The modification was worked by incorporating Allen's motion into the September 6, 1978, order by reference to that motion. The result was to direct the disbursement to Allen of all royalties then in escrow and to permit the payment into escrow of only those royalties which would accrue after Bear stopped marking its product with the patent number. Until Bear stopped marking its product, it was to pay royalties directly to Allen. In framing this amended order, the court expressly relied upon equitable principles announced in *Kraly v. National Distillers and Chemical Corp.*, 502 F.2d 1366, 1372 (7th Cir. 1974).

Bear appealed from the April 2, 1979, modifications. Allen cross appealed.

With the formation of the new Central District of Illinois, the case was moved from the court sitting in Peoria to the court sitting in Danville. After the case was reassigned, Bear sought a reconsideration of the April 2, 1979, order and applied to the Court of Appeals to remand the case. The Court of Appeals expanded the jurisdiction of the district

court to reconsider the September 6, 1978, order, as amended.

On August 1, 1979, on reconsideration, the court vacated those portions of the April 2, 1979, order which permitted Allen to withdraw any royalties and continued in effect the escrow provisions of the September 2, 1978, order.[1] For convenience and ease of comprehension, a copy of the September 6, 1978, order with its additions and deletions, as it would have appeared just prior to August 1, 1979, is attached as Appendix "A".

II

Allen now moves to amend the August 1, 1979, order by adding conclusions of law requiring an evidentiary hearing to determine whether Bear can prove a *prima facie* case of fraud by Allen in the procurement of the patent. Allen further seeks a stay of determination on the proper disposition of royalties which accrued before Bear filed suit until the evidentiary hearing is concluded.

This court based its August 1, 1979, order on the equitable conclusion that escrowing the royalties would safeguard the interests of all the parties and preserve the *status quo*. The decision to maintain the escrow account was founded upon two determinations made by Judge Morgan in his September 6, 1978, order. First:

> If Bear prevails . . . it is reasonably likely that defendant Allen Archery, Inc. would be unable to repay such royalties.
>
> As a result of this likely inability to recoup its royalties

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[1]As noted in the August 1, 1979, order, the absence of the complete record hampered this court, which has now assembled copies of the initial order of September 6, 1978, the amending order of April 2, 1979, and the Allen motion of January 10, 1979, that Judge Morgan incorporated by reference into his amending order.

> from defendant Allen Archery, Inc. in the event that a refund is ordered, Bear would be irreparably damaged if required to pay royalties directly to Allen Archery, Inc. and would have no remedy at law with respect to recoupment thereof.

Second:

> In view of the fact that some of the claims of the patent in suit have been disclaimed and since the validity of the patent is being challenged by other compound bow manufacturers in other United States District Courts, there is a reasonable likelihood of success by Bear in its declaratory judgment action. . . .

Thus, Judge Morgan found a demonstrated inability to repay on the part of the licensor should the licensee ultimately become entitled to recover the royalties, coupled with a reasonable likelihood of success by the licensee in its challenge suit.

Undoubtedly, a royalty escrow arrangement is permissible under appropriate circumstances. The inability of the patentee to repay royalties to which the licensee would become entitled is such a circumstance. *USM Corp. v. Standard Pressed Steel Co.*, 524 F.2d 1097, 1099-1100 (7th Cir. 1975); *Atlas Chemical Industries, Inc. v. Moraine Products*, 509 F.2d 1, 7 (6th Cir. 1974) (terming escrow "a commendable procedure to preserve the status quo during the course of [patent] litigation"); *Warner-Jenkinson Co. v. Allied Chemical Corp.*; 567 F.2d 184, 188-89 (2d Cir. 1977); *Milton Roy Co. v. Bausch & Lomb Inc.*, 418 F. Supp. 975 (1976); *but see Nebraska Engineering Corp. v. Shivvers*, 557 F.2d 1257 (8th Cir. 1977). The court concludes that escrowing royalties is an appropriate interim provision under the circumstances of this case.

The next and the truly troublesome question is: What royalties are recoverable from a patentee whose patent is

declared invalid? That question must be answered in this case in order to determine what royalties may rightfully be escrowed.

Consideration of royalties within the concept of the time at which they accrue affords a means of analysis. Five possibilities present themselves.

1. The "*ab initio*" rule. All royalties paid since the issuance of the patent may be recovered.

2. The "possession" rule. All royalties retained by the licensee and withheld from the patentee may be recovered.

3. The "challenge" rule. All royalties which accrue or are paid to the patentee after formal, legal challenge may be recovered.

4. The "renunciation" rule. All royalties which accrue after the licensee stops marking its product with the patent number and renounces the license may be recovered.

5. The "eviction" rule. All royalties which accrue after a final judgment of invalidity of the patent may be withheld or recovered.

Examination of the authorities dealing with suits to declare patents invalid and consideration of the policies underlying those decisions leads to the conclusion that the "challenge" rule is supported by the strongest rationale and generally should be applied. Bear's argument that the "*ab initio*" rule should apply where fraud on the Patent Office is the basis of invalidity is not persuasive. While equity might find an exception based on unjust enrichment where the fraud was worked directly on the licensee, no such claim has been raised here.

III

The United States Supreme Court decision in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) marks a point of departure in the field of patent litigation. In its narrowest sense, *Lear* overturned the doctrine of licensee estoppel. That doctrine held that a licensee who had obtained the benefits of a licensing agreement was estopped to contest the validity of the underlying patent. The doctrine would arise to prohibit a defense of patent invalidity in a suit by a patentee against a licensee for overdue royalties, *e.g., Automatic Radio Manufacturing Co., Inc. v. Hazeltine Research, Inc.*, 339 U.S. 827, 836 (1950); or it might come into play in a patentee's suit for infringement against a licensee going into business for itself. See generally *Lear, supra*, 395 U.S. at 663-68.

In a broader sense, however, *Lear* proclaimed a federal policy to eliminate specious patents and to place common ideas in the public domain and general circulation.

> Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation involving the negotiation of a license after a patent has issued.

Id. at 670-71.

Lear made vague reference to, but did not fully consider, the liability of a licensee for royalty payments in light of the demise of the doctrine of licensee estoppel; "For all these reasons, we hold that Lear must be permitted to avoid the payment of all royalties accruing after Adkins' 1960

patent issued if Lear can prove patent invalidity." *Id.* at 674.

Following *Lear* the lower courts set about applying, or interpreting, the fundamental policy considerations underlying the decision. "The key policy motivation weighing the scales in *Lear* in favor of outlawing licensee estoppel was obviously the 'unmuzzling' of licensees to challenge patentability." *Bendix Corp., v. Balax, Inc.*, 471 F.2d 149, 157 (7th Cir. 1972). It is fair to say that clarity and uniformity are not the hallmarks of the decisions interpreting *Lear*.

> When the Supreme Court in *Lear* expressed the public policy of encouraging licensees to challenge patents, the lower courts saddled up and went charging off in several different directions. The "spirit of *Lear*" became the battle cry of all patent licensees every time any rule of law came between a licensee and its desire to challenge a patent . . . . Although an academic observer might characterize post-*Lear* developments as "evolutionary," the contrary positions taken by various courts is truly "chaotic" to the practitioner who must draft a patent license, plan litigation strategy or recommend to a licensee whether or not to pay royalties.

McCarthy, "*Unmuzzling" the Patent Licensee: Chaos in the Wake of Lear v. Adkins*, 45 *Geo. Wash. L. Rev.* 429, 431 (1977).

It appears that the United States Court of Appeals for the Sixth Circuit has led the way in applying *Lear* to fact situations not addressed by the Supreme Court. *See* McCarthy, *id.* at 430-455. The Sixth Circuit first considered the case of a patent licensee who stood by and watched while a challenger successfully attacked the validity of the patent. After final judgment of invalidity was secured by the chal-

lenger, the bystander licensee brought suit to recover the royalties it had paid under the now invalid patent. *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253 (6th Cir. 1972), (Troxel I), *appeal after remand* 489 F.2d 968 (6th Cir. 1973) (Troxel II). The bystander licensee, the *Troxel* court held, had to pay royalties to the patentee until the date of final judgment of invalidity of the patent. The holding, applying the rule known as the "eviction" rule by analogy to landlord-tenant law, *see* McCarthy, *supra*, at 443 n.97, is consistent with the policy of *Lear* because it encourages an early challenge to the validity of the patent by the licensee. The *Troxel* district court, on the theory that the patent was void *ab initio*, had permitted the licensee to recover all royalties paid to the patentee under the license. The district court also found support in the language in *Lear* that the plaintiff there could avoid all royalties accruing after the patent issued. *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, 334 F. Supp. 1269 (W.D. Tenn. 1971). What the district court had overlooked was the fact situation in *Lear*. In *Lear*, the parties had entered into a licensing agreement *before* the patent issued. Moreover, the licensee challenged the patentability of the discovery by withholding royalties *before* the patent issued. *Lear, supra*, at 657-60, 671-72; *Troxel I, supra*, 465 F.2d at 1259. "Hence, *Lear* could avoid payment of all post-patent royalties only because it challenged the patent before Adkins' patent issued." McCarthy, *supra*, at 437.

In rejecting the "*ab initio*" rule as a basis for recovery of royalties, *Troxel I, supra*, 465 F.2d at 1257-58, states:

> A rule that licensees can recover all royalties paid on a patent which later is held to be invalid would do far more than "unmuzzle" licensees. It would give the licensee the advantage of a "heads-I-win, tails-you-lose" option. *Lear* states that it is in the public interest

to encourage an early adjudication of invalidity of patents. Application of the holding of the District Court could defeat early adjudication of invalidity and encourage tardy and marginal litigation. If the licensee could recover royalties paid (subject to any statute of limitations) on the basis of an adjudication of invalidity accomplished by another litigant, without incurring the expense or trouble of litigation, there would be less inducement for him to challenge the patent and thus remove an invalid patent from the competitive scene. He would be more likely to wait for somebody else to battle the issue because he would have nothing to lose by the delay.

Rather than stimulating early litigation to test patent validity, such an interpretation of *Lear* would make it advantageous for a licensee to postpone litigation, enjoy the fruits of his licensing agreement, and sue for repayment of royalties near the end of the term of the patent. When a licensed patent is about to expire and the threat of injunction no longer exists, a licensee would have little to lose in bringing an action to recover all the money he has paid in royalties on the ground of the invalidity of the patent. The licensee would have a chance to regain all the royalties paid while never having been subjected to the risk of an injunction. Such an interpretation of *Lear* would defeat one of the expressed purposes of the court in announcing that decision.

Further, the interpretation of *Lear* adopted by the District Court inevitably would discourage the licensing of patents. A patent is a form of intellectual property. The licensing of patents is a business of considerable magnitude.

Under the decision of the District Court, any person who has licensed his invention or patent would have a continuous cloud over any payment of royalties made

> to him. The cloud might take the form of limiting his credit because of contingent liability. He would be compelled to retain all royalties received in a relatively liquid state until the expiration of the licensed patent, or the running of the applicable statute of limitations.

The Sixth Circuit's next interpretation of *Lear*, in a case factually similar to this case, was *Atlas Chemical Industries, Inc. v. Moraine Products*, 509 F.2d 1 (6th Cir. 1974). There, the court held, a licensee who brings a successful challenge directly against the patentee becomes entitled to recover all royalties accruing after the time of challenge but remains liable to pay the patentee all royalties which had accrued prior to the date of challenge. The same policy grounds which favored adoption of the "eviction" rule in bystander licensee cases favored adoption of the "challenge" rule in direct attacks by licensees.

> It is apparent that these equitable considerations commend an opposite result in the present case. The freedom from royalty payments, at as early a date as possible, is a strong "inducement . . . to challenge the patent and thus remove an invalid patent from the competitive scene." *Id.* Moreover, the licensee would not be "likely to wait for somebody else to battle the issue," *id.*, if he were to lose his royalties while sitting on his rights in the hope for a valiant third party to pull the chestnuts out of the fire.

Id. at 6.

It is clear, in the Sixth Circuit, that as a general proposition Bear, if it was successful in its challenge, would be able to recover all license royalties accruing after the date of Bear's intervention as a plaintiff. A similar result would obtain in the Ninth Circuit. *St. Regis Paper Co. v. Royal Industries*, 552 F.2d 309, 313-14 (9th Cir. 1977). The Court of Appeals for the Seventh Circuit, however, has not made

a definitive statement in this area of the law and whether that court will adopt the "challenge" rule of *Troxel* and *Atlas* is yet to be learned.

The reasoning of *Troxel I, supra,* is persuasive that the "*ab initio*" rule which permits recovery of all royalties retroactive to the date of the issuance of the patent is contrary to the spirit of *Lear*. The "*ab initio*" rule discourages prompt challenge to a patent's validity. The rule would permit a licensee to have the cake of a licensing agreement and eat all the royalties too, as the bystander licensee sought to do in *Troxel I*. The Seventh Circuit has cited *Troxel,* which repudiates the "*ab initio*" rule, with approval. *USM Corp. v. Standard Pressed Steel Co.*, 524 F.2d 1097, 1099 (7th Cir. 1974); *Ransburg Electro-Coating Corp. v. Spiller & Spiller, Inc.*, 489 F.2d 974, 978 (7th Cir. 1973). Therefore, this court will not follow the "*ab initio*" rule.

The Seventh Circuit has also rejected the "possession" rule which would make entitlement to royalties depend on whether the licensee had paid or withheld them. "[R]elevant policy considerations, and not possession of the funds, should determine entitlement. . . . [E]ntitlement in these circumstances should not depend upon possession. . . . [E]ntitlement will not depend upon whether the royalties have been paid to the licensor." *USM Corp. v. Standard Pressed Steel Co.*, 524 F.2d 1097, 1099 (7th Cir. 1975).

It may be deduced then, that entitlement to royalties in a challenge suit in the Seventh Circuit will turn on one of three bases: (1) the "renunciation" rule which requires the licensee to stop marking its product with the patent number before entitlement begins; (2) the "challenge" rule under which entitlement begins on the day of formal, legal challenge; or, (3) the "eviction" rule which terminates liability on the date final judgment of invalidity is entered.

Certainly the "eviction" rule can have no application in a direct challenge case such as this. Although *Lear* does not say when royalty entitlement occurs, it makes it clear that entitlement arises at some point *before* final judgment of invalidity. *Lear, supra,* 395 U.S. at 674. The Seventh Circuit has recognized this inescapable implication of *Lear* in *Kraly v. National Distillers & Chemical Corp.*, 502 F.2d 1366, 1372 (7th Cir. 1974). There it does not preclude a licensee's possible entitlement to post-challenge royalties but, citing *Troxel I* with approval, praises the district court for applying equitable principles in awarding royalties to the patentee under the circumstances of the *Kraly* case.

The "eviction" rule does not promote the expeditious achievement of final judgment. A patentee would have every incentive to postpone a final determination of the validity of the patent. Every day's delay would grant him the monetary rewards for what eventually might prove itself worthless. Deciding entitlement at a point prior to final judgment, on the other hand, would encourage both patentee and challenger to bring a speedy end to their litigation. The patentee would want to remove the cloud on the validity of the patent while the licensee would want to obtain a refund of royalties.

This court is not unmindful of the arguments in favor of the eviction rule—that it spurs the challenger to vigorous prosecution of his case and that a licensee, even under an invalid patent, receives a valuable benefit from the licensing agreement. The court feels, however, that the merit of those arguments is outweighed by the reasons advanced in the preceding discussion.

Allen argues that *Kraly v. National Distillers & Chemical Corp., supra,* embraces the "renunciation" rule and that a challenger must stop marking its product with the patent number in order to be entitled to recover royalties. This court rejects that interpretation of *Kraly*.

In the first place, the Supreme Court has plainly said that *Lear* allows a licensee not only to challenge the patent but to do so while performing under the license:

> If [the patent does issue], it may well be invalid, yet many will prefer to pay a modest royalty than to contest it, even though *Lear* allows them to accept a license and pursue the contest without paying royalties while the fight goes on.

Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 488 (1974), *quoting Painton & Co. v. Bourns, Inc.*, 442 F.2d 216, 225 (2d Cir. 1971).

Secondly, the Seventh Circuit decisions subsequent to *Kraly* do not indicate that court has adopted the "renunciation" rule. In *Crane Co. v. Aeroquip Corp.*, 504 F.2d 1086 (7th Cir. 1974) the court cast doubt upon the "renunciation" rule as a general standard upon which to judge royalty entitlement:

> *Marking Estoppel*
>
> The district court found that defendant had "a specific intent to mark the accused devices and represent them as protected by a patent." 364 F.Supp. at 560. Despite its holding of non-infringement by defendant, the court held that defendant's marking of its modified couplings with plaintiff's patent number estopped it from denying that it was liable for royalties on the modified couplings. Because of our decision that the modified couplings do infringe Claims 6, 9, 11, 14 and 15 of the suit patent, it is unnecessary for us to decide the question whether the court was right in holding defendant liable by reason of marking. We express no opinion on that phase of the decision below.

Id. at 1093.

USM Corp. v. Standard Pressed Steel Co., 524 F.2d 1097, 1099 (7th Cir. 1975), in citing *Kraly* with approval,

did not do so for the purpose of upholding the "renunciation" rule or "marking estoppel", but did so for the broader proposition that royalty entitlement depends not upon possession but upon "relevant policy considerations."

Moreover, *Kraly* does not depend upon the "renunciation" rule as the basis of decision. Rather *Kraly* can be interpreted as an expression of the "challenge" rule as set forth in *PPG Industries, Inc. v. Westwood Chemical, Inc.*, 530 F.2d 700 (6th Cir. 1976). In *PPG*, the Court stated that it is the first affirmative action on the part of a licensee to bring about early adjudication of a patent's validity that triggers the "challenge" rule. That action, the court said, will normally occur either when the licensee withholds payment or files suit, whichever occurs first. *Id.* at 708.

In *Kraly*, the licensee had withheld royalty payments, but only because the patentee had not fulfilled its contractual obligation to sue alleged infringers, not because the patent was invalid. It was later on that the licensee asserted the invalidity of the patent as a defense when the patentee's sued for non-payment of royalties. At about the same time, some three months later, the licensee stopped marking its product with the patent number.[2] *See Kraly v. National Distillers and Chemical Corp.*, 319 F.Supp. 1349 (N.D. Ill. 1970). So the decision of the licensee to stop marking its product virtually coincided with the challenge defense and was the first affirmative action sufficient to trigger the application of the "challenge" rule. *See* McCarthy, *"Unmuzzling" the Patent Licensee: [sic] [Chaos] in the Wake*

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[2]An examination of the record in *Kraly* shows the affirmative defense of patent invalidity was raised by the defendant in its answer on June 25, 1970. Defendant's answer to interrogatory No. 39 shows that the defendant's answer to interrogatory No. 39 shows that the defendant discontinued marking under the patent on September 23, 1970.

of Lear v. Adkins, 45 *Geo. Wash. L. Rev.* 429, 452-53 (1977).

The conclusion that arises inescapably from all this discussion is that the "challenge" rule is the only rule that can form the general basis for determining when a licensee is entitled to recoup its royalty payments. No other rule will better promote the federal policy of encouraging challenge to questionable patents and an early adjudication of disputes.

Therefore, Allen is entitled to recover those royalties paid into escrow which accrued under the license agreement prior to May 2, 1978, the day on which Bear intervened and challenged Allen's patent. All royalties accruing after that date are to be held in escrow by the clerk of this court as heretofore ordered, pending the outcome of this litigation.

IV

One question remains. Since Bear has alleged that Allen procured its patent by a fraud upon the Patent Office, should an exception to the "challenge" rule be worked in such a case? Should Bear, assuming it can prove its allegations, be entitled to recover royalties under the "*ab initio*" rule?

There is dicta, grounded on the theory of unjust enrichment, that patent fraud may justify a complete refund of royalties. *Lear, Inc. v. Adkins*, 395 U.S. 653, 669-70 (1969); *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253, 1259 (6th Cir. 1972); *Kraly v. National Distillers and Chemical Corp.*, 319 F. Supp. 1349, 1354 (N.D. Ill. 1970). Bear's claim of fraud is one of procurement from the Patent Office, not a fraud upon Bear itself. The distinction is critical. "[I]ts bald assertion that it deserves to recover due to . . . alleged fraud, not on it but on the Patent Office itself, does not state a claim on which relief can be afforded." *Zenith Laboratories, Inc. v. Carter-Wallace, Inc.*, 530 F.2d 508, 515 (3d Cir. 1976).

Zenith is persuasive to this court because no compelling reason comes to mind to warrant an exception to the "challenge" rule because of a fraud upon the Patent Office. The same arguments against the "*ab initio*" rule apply here as applied to pre-challenge royalties in the absence of fraud. The antipathy of our system of jurisprudence toward unjust enrichment might have application in a case where the patentee defrauded the licensee directly, see *Zenith Laboratories, supra,* 530 F.2d at 514-15; *Frequency Electronics, Inc. v. National Radio Co., Inc.,* 422 F. Supp. 609 (S.D.N.Y. 1975); *aff'd* 546 F.2d 497 (2d Cir. 1976); but such a case is not before the court.

Moreover, in a fraud upon the Patent Office, it is the public, the ultimate consumer of the patented product, who suffers the impact of the wrong by being deprived of the benefit of competition in the manufacture of the patented product. The wrong is a public wrong, not a private one.

IT IS THEREFORE ORDERED that the clerk of this court pay over to the defendants those royalties deposited in court by the plaintiffs which accrued under the plaintiffs' licenses with the defendants prior to the date the various plaintiffs filed suit challenging the validity of the defendants' patent.

IT IS FURTHER ORDERED that the defendants submit an order to the court setting forth the precise sum to be paid out by the clerk representing escrowed pre-challenge royalties.

IT IS FURTHER ORDERED that all post-challenge royalties accruing to the defendants under their licensing agreements with the plaintiffs be paid to the clerk of this court, as said royalties accrue, to be held in escrow by the clerk under the escrow arrangements heretofore established in this cause.

IT IS FURTHER ORDERED that all orders heretofore entered in this cause, to the extent that they are inconsistent with this order, are hereby modified or superseded by this order; otherwise all previous orders are to remain in full force and effect.

IT IS FURTHER ORDERED that the Allen's motion for making additional conclusions of law and for an evidentiary hearing on the existence of a *prima facie* case of fraud be, and it hereby is, denied.

ENTERED this 8th day of February, 1980.

/s/ Harold A. Baker
Harold A. Baker
United States District Judge

APPENDIX A.

In the United States District Court for the Eastern District of Illinois.

Precision Shooting Equipment, Inc. and Paul E. Shepley, Jr., Plaintiffs, Bear Archery Co., Division of Victor United, Inc., Applicant for Intervention, v. Holless W. Allen and Allen Archery, Inc., Defendants. Civil Action No. 77-0152-D.

ORDER AND PRELIMINARY INJUNCTION

This cause came on to be heard on June 9, 1978, on applicant for intervention Bear Archery Co.'s (hereinafter Bear) Motion to Intervene and Motion for a Preliminary Injunction, and the Court having considered Bear's proposed Complaint, Bear's Motion for Temporary Restraining Order Pursuant to Rule 65 FRCP, Bear's Motion Under Rule 65 FRCP (1) for Preliminary Injunction and (2) for an Order Permitting Payment of Royalties into Court, the affidavit submitted to support Bear's motions, and the affidavits, briefs and exhibits submitted in opposition to Bear's motions, and having heard oral arguments in open court, makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. United States Letters Patent No, 3,486,495 issued to defendant Holless W. Allen in 1969 and was subsequently assigned to defendant Allen Archery, Inc.

2. Defendant Allen Archery, Inc. and Bear have entered into two successive license agreements with respect to patent No. 3,486,495, the current one of which is Exhibit B attached to Bear's proposed Complaint, and under said agreements Bear has paid approximately $2 million to defendant Allen Archery, Inc. prior to May 2, 1978. It appears rea-

sonably likely that Bear will, during the pendency of this action, become obligated under the current license agreement for further royalties to Allen Archery, Inc. in the amount of at least approximately $500,000 per year.

3. On May 2, 1978, at the time of filing of its foregoing motions and proposed complaint in this action challenging the validity of patent No. 3,486,495, Bear proffered to this Court the sum of One Hundred Seventeen Thousand, Eight Hundred Fourteen Dollars and Forty-Four Cents ($117,-814.44), being the amount of royalty payments admitted to be due at that time under the agreement of Exhibit B for the quarterly period January 1—March 31, 1978. This amount was accepted by the Court by Order dated May 4, 1978, and deposited pursuant to that Order on May 12, 1978.

4. As a result of tests conducted in 1974 by defendant Holless W. Allen on a prior art Barna-type bow constructed under circumstances set forth in paragraphs 15, 16 and 17 of Allen affidavit dated May 23, 1978, in opposition to Bear's motions herein, a disclaimer of claims 1, 2 and 11 of patent No. 3,486,495 was filed in the United States Patent and Trademark Office by Allen Archery, Inc., and was published May 20, 1975, at 934 O.G. 888.

5. Said patent has already been challenged by the original plaintiffs in the instant action, as well as by other manufacturers of compound bows in other United States District Courts.

6. If Bear prevails in its declaratory judgment action, seeking that said patent be held invalid, unenforceable and/or not infringed, and royalty payments under the license agreement of Exhibit B are ordered refundable to Bear, it is reasonably likely that defendant Allen Archery, Inc. would be unable to repay such royalties.

7. As a result of this likely inability to recoup its royalties from defendant Allen Archery, Inc. in the event that a refund is ordered, Bear would be irreparably damaged if required to pay royalties directly to Allen Archery, Inc. and would have no remedy at law with respect to recoupment thereof.

8. Defendants have failed to demonstrate any prejudice to them which might result from the granting of Bear's motion for a preliminary injunction *pendente lite*, and no damage has been caused to defendants as a result of the Temporary Restraining Order granted heretofore.

9. Royalties accrued under the current license agreement of Exhibit B for the period from January 1, 1978, through May 1, 1978, have not been paid to Allen Archery, Inc., and are [not] considered by this Court to be prechallenge royalties.

10. *Bear Archery Co. has during at least the period from January 1, 1978 up to the present date complied with the license agreement of Exhibit B which required marking bows sold under it with the number of Patent No 3.486,495.*

11. Where any finding of fact, in whole or in part, may be construed as a conclusion of law, it should be so construed.

CONCLUSIONS OF LAW

1. Bear's moving papers establish a proper case for permissive intervention under Rule 24(b) F.R.C.P. and its motion to intervene should be granted.

2. During the pendency of an action where a licensee is challenging the validity of the licensed patent and the enforceability of the license, the licensee may keep its license *by ceasing to mark its products made under the license agreement with the number of the licensed patent and* by paying royalties *on such unmarked products* into an escrow

account when the licensor may not have sufficient financial resources to repay royalties accruing under the license if it is successful in its challenge.

3. In view of this Court's finding that defendant Allen Archery, Inc. might not be able to repay royalties should the patent in suit be declared to be invalid, Bear may during the pendency of this action properly pay royalties due under its license agreement *on products not marked with the number of the licensed patent,* into this court in escrow rather than directly to defendant Allen Archery, Inc.

4. Pre-challenge royalties are [only] those paid to the patent owner before the validity of the patent is challenged *by the paying licensee,* and [do not] include unpaid royalties due or accrued before such date.

5. In view of the fact that some of the claims of the patent in suit have been disclaimed and since the validity of the patent is being challenged by other compound bow manufacturers in other United States District Courts, there is a reasonable likelihood of success by Bear in its declaratory judgment action and there is a reasonable likelihood of irreparable damage to Bear if it were to be required to continue to pay royalties under the license agreement of Exhibit B directly to defendant Allen Archery, Inc. during the pendency of this action.

6. Payment of royalties *on products not marked with the number of the licensed patent* into Court in escrow pursuant to this Order, [including the royalty payment accepted by this Court on May 4, 1978] *hereafter* does not constitute a breach of the license agreement of Exhibit B. [and] *T*he license agreement is still in effect and *Bear is entitled to an injunction pendente lite against its cancellation for breach of the provision relating to marking products with the number of the licensed patent.*

7. the past and continued marking by Bear of its compound bow products with the number of U.S. Patent 3,486,495, pursuant to the terms of its license agreement with defendant Allen Archery, Inc., is without prejudice to Bear's status as one challenging the validity of said patent in this Court and shall not act as a bar or estoppel to any right of Bear either to challenge the validity, enforceability and/or infringement of the patent or to any right of Bear to recoup the royalties placed in escrow pursuant to this Order, and any other sums to which it may be entitled should the foregoing patent subsequently be declared to be invalid.

8. Even should the licensed patent eventually be held invalid, unenforceable or not infringed, Bear is not relieved of its obligation or not infringed, Bear is not relieved of its obligation to pay royalties for the period in which it enjoys the benefit of its license by representing to the public that its product is licensed under the Allen patent. So long as Bear sought and continues to seek the protection of the patent, it is only equitable that it should discharge its royalty obligation under the license agreement.

9. Wherever any conclusion of law, in whole or in part, constitutes a finding of fact, it should be so construed.

IT IS THEREFORE ORDERED:

(1) that Bear be permitted to intervene as a plaintiff in this action and that Bear's complaint be submitted to the appropriate United States Marshal in the Western District of Missouri for service upon the defendants or served in any other appropriate manner as provided for in the Federal Rules of Civil Procedure;

(2) that the defendants Holless W. Allen and Allen Archery, Inc., a corporation, and their officers, attorneys, servants, agents, associates, members, employees and all persons acting on their behalf or at their direction be re-

strained and enjoined from bringing any other action in any other court, whether state or federal, against Bear or any of its customers, suppliers, persons controlling or controlled by Bear, or any other party associated or affiliated with Bear with regard to any subject matter which might reasonably be pleaded to or counterclaimed in this action or arising out of or relating to the foregoing license agreement or U.S. Patent No. 3,486,495;

(3) that Bear shall be permitted to [continue to] pay into this Court all amounts of royalties which shall accrue under the license agreement of Exhibit B by reason of the sale of bows *not marked with the number of U.S. Patent No. 3,486,495* pending the final disposition of this action by court order or otherwise by agreement of the parties approved by the Court. All such amounts paid into court by Bear shall be deposited by the Clerk of this Court in an interest-bearing account or invested in interest-bearing securities of the United States of America until further order of the Court;

(4) that a check drawing on the monies deposited with this court by Bear pursuant to the September 6, 1978 Order of this Court be made payable by the Clerk of this Court to Allen Archery, Inc. in the total amount of all such deposits plus accrued interest, if any, and that said check be delivered to Allen Archery, Inc.

(5) that Allen Archery, Inc. and all persons acting on its behalf or under its direction shall be enjoined from terminating the license agreement of Exhibit B so long as Bear complies with the provisions of that agreement, including the submission of quarterly royalty reports to Allen Archery, Inc., except as set forth in this Order;

(6) that this Order is temporary in nature and subject to modification by this Court upon motion duly brought by any party; and

(7) that Bear shall continue in full force and effect its present bond, posted herein at the time this Court issued the Temporary Restraining Order, in the sum of Six Thousand Dollars ($6,000), as security for the payment of such costs and damages as may be incurred or suffered by any party who is found to have been wrongfully enjoined or restrained.

/s/ Robert D. Morgan
Robert D. Morgan
United States District Judge

Entered: September 6, 1978
Nunc pro tunc June 9, 1978
Amended: April 2, 1979

February 11, 1980

Precision Shooting, *etc.*, *et al.*,

vs.

Allen, *etc.*, *et al.*

To: All counsel of record.

Subject: Errata.

The following corrections have been made on the face of the order entererd on February 8, 1980. You should correct your copy accordingly.

P.2, line 20. Strike "agrement." Substitute "agreement."

P.3, next to the bottom line. add a comma after 1979.

P.4, line 11. Strike "2." Add "6."

P.6, line 5. Strike "troublesom.' Substitute "troublesome."
First line, last full ¶. Strike "authories." Substitute "authorities."

P.7, line 7. Strike "markes." Substitute "marks."

P.11, line 4. Strike "that."

P.14, line 10. After "*Lear*", strike "not only." After "Licensee", add "not only."
Second line, third full ¶. After "*Kraly*", strike the comma.

P.17, line 1. After "Office", strike the semicolon. Substitute a comma.
line 23. After "wrong", strike the semicolon. Substitute a comma.

/s/ Harold A. Baker
Harold A. Baker
U.S. District Judge